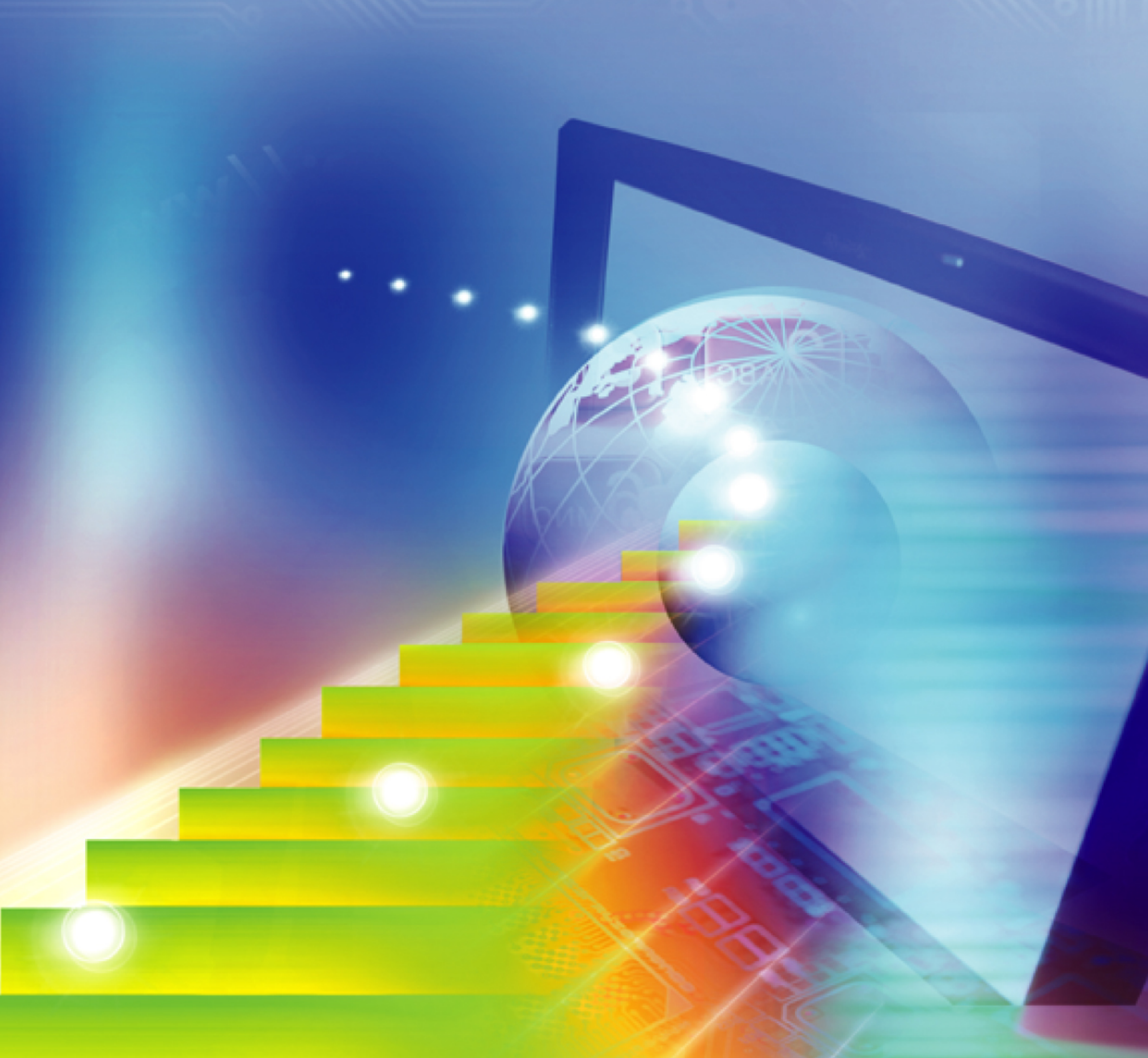
Exhibit 3

彩虹集團電子股份有限公司
IRICO GROUP ELECTRONICS COMPANY LIMITED*

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock code : 0438)



* *For identification only*

Annual Report 2006

CONTENT

Overview

In 2006, IRICO Group Electronics Company Limited (the "Company") and its subsidiaries (the "Group"), in accordance with the strategy of "Strengthening its colour picture tubes ("CPTs") business and exploring new businesses", turned loss into profit after a series of effective operational strategies which are cost-leading, marketing-driven and new technology supporting. Operating profit for the year amounted to RMB250,337,000, representing an increase of RMB1,089,718,000. Gross profit margin increased from -11% in 2005 to 13% in 2006. The Company turned loss to profit with its profit attributable to equity holders amounted to RMB129,512,000.

During 2006, the Group sold 15,022,000 CPTs in total, representing an increase of 671,000 units or approximately 4.7%, as compared with 2005. The Group's output volume of CPTs attained record high in 2006 accounted for up to 22.3% of the total output volume of CPT manufacturers in the PRC, securing a leading position in the industry.

In 2006, the Group actively sought innovation and achieved major breakthrough in the strategic transformation. The plasma display devices ("PDP") panel joint venture project with Sichuan Changhong Electrical Group Co., Ltd ("Sichuan Changhong") started smoothly. The sales volume of the trichromatic energy saving phosphor project utilizing the relative advantage of resources amounted to 410 tonnes, which is leading domestically. The first glass based panel project for LCD in the People' Republic of China (the "PRC" or "China") invested by the controlling shareholder of the Company, IRICO Group corporation, has also started. As the same time, the Group paid close attention to the development of optoelectronic materials and components and new model display devices such as FED.

The competitive advantages of the Group are the capacity of its centralized and complete production chain, a leading localized and large-scale production capacity in the industry, strong customer relations over the world, a management team which is strong in decision-making and execution, a technological team with fast product development standard, excellent asset quality, good internal and external resources, which support the exploration of new businesses and strategic transformation.

Looking to 2007 and ahead, the Group will on the one hand strengthen the traditional CPT business by relying on its unique competitive advantages, and on the other hand further enhance innovation on modern display devices, components materials and modern optoelectronic perspectives, in order to achieve transformation in strategies, so as to establish the Group into a growing enterprise in the realm of display devices and optoelectronics within China or even in the globe to secure booming results to shareholders.

Financial Highlights

1. Results

	2006 (RMB'000)	2005 (RMB'000)	Increase/ (decrease) (RMB'000)	Percentage change (%)
Turnover	**3,861,710**	3,927,500	(65,790)	(1.70)
Cost of sales	**(3,356,160)**	(4,357,371)	1,001,211	(22.98%)
Gross profit/(loss)	**505,550**	(429,871)	935,421	N/A
Gross profit margin (%)	**13.09%**	(10.95%)	24.04%	N/A
Operating profit/(loss)	**250,337**	(839,381)	1,089,718	N/A
Operating profit margin	**6.48%**	(21.37%)	27.85%	N/A
Profit/(loss) of the year attributable to the equity holders of the Company	**129,512**	(754,547)	884,059	N/A
Net profit margin (%)	**3.4%**	(19.2%)	22.57%	N/A
Earnings/(loss) per share of the year attributable to equity holders of the Company (expressed in RMB per share) — basic	**0.07**	(0.39)	0.46	N/A
Dividend per share (RMB)	**—**	0.03	(0.03)	N/A

2. Financial position

	2006 (RMB'000)	2005 (RMB'000)
Property, plant and equipment	**2,497,428**	2,921,436
Net current assets	**444,840**	83,286
Cash and bank balances	**479,503**	587,838
Total liabilities	**2,274,446**	2,734,800
Short-term bank borrowings	**932,676**	1,260,177
Total equity	**3,216,611**	3,060,626

Financial Highlights (Continued)

3. Operating indices

	2006	2005
Returns per share (annual)	**6.67%**	(38.90%)
Inventory turnover (days)	**69**	64
Trade receivable turnover (days)	**141**	135
Trade payable turnover (days)	**63**	66
Current ratio	**1.20**	1.03
Debt equity ratio	**1.17**	1.41

Chairman's Statement

Chairman
Xing Daoqin

Dear Shareholders,

Year 2006 was a critical year to the operation and development of the Group. In 2006, we focused on and strived to deal with the impact brought by flat panel display ("FPD") to the traditional CPT business and explored new businesses of profit growth, so as to successfully realize the strategic transformation of the Company, and to reward shareholders with better operation and development.

In 2006, pursuant to the strategic ideology of "Strengthening CPTs and exploring new businesses", the management of the Group strived for corporate development and the staff is dedicated to their work. We are delighted that we can finally reward the shareholders with better results.

In 2006, the Group turned loss into profit and the results are substantially better than those of the previous year. On the one hand, the quantities of output and sales attained new historical records, securing the leading position in the industry, on the other hand, great advancement was achieved in industry innovation and transformation of strategy.

The sales of the Group in 2006 was RMB3,861,710,000, which was almost the same level of 2005. Operating profit increased by RMB1,089,718,000 to RMB250,337,000. Gross profit margin increased from -11% in 2005 to 13% in 2006. The Company turned loss to profit with its profit attributable to equity holders amounted to RMB129,512,000.

Initial achievement of "Strengthening CPTs"

In 2006, driven by the impact of FDP, the global CPT industry continued to suffer a fast downturn. However, we believe that market opportunities exists in the global cathod ray tube ("CRT"; CPT is a type of CRT) industry in the coming few years, because, on the one hand, CPTs still have their development potential in segmented market such as super slim CPTs and all-flat CPTs, and on the other hand, given the large user base of CRT television market and imbalanced income gap among different countries and social classes , CRT will be a core integral part of the global television set market in the long run. In view of the strong demand of the tiered consumption structure resulting from such imbalance purchasing power, we consider that those established, competitive and innovative CRT manufacturers will survive the competition and grasp the development opportunities, particularly in the CRT market in China which accounts for two-thirds of global market share where the Company believes more opportunities will be available, though the operating condition of the global industry will be increasingly stringent in the coming few years.

Based on the above analysis, we consider "strengthening CPTs" as an important strategy. We believe that, by our efforts, the Group's market share still has room for enhancement, despite the declining of total volume of CPTs in the world. The Group is capable and determined to enhance and improve the business operation of CPT. In 2006, the Group adopted a series of positive and effective operational strategies which are cost-leading, marketing-driven and new technology supporting to further enhance the competitiveness of the Group in the CPT industry. We further reduced costs by relying on the measures such as innovation in technology and management, use of new raw materials, restructuring of work flows, online procurement, decreased inventory, streamlining of personnel and enhancing of efficiency. Also, we further improved and strengthened the sales and marketing by improved market forecasts, identification of customers, fast decision-making, incentives to the sales team and control over the sales process, and actively sought to expand the international market. As we increase our research and development in new technologies, three projects of 40cmPFAK, 54cmPF super slim and 64cmPFAK CPTs have realized scale production and launched onto the market, which improved the product mix and enhance the competitiveness of the Company. In the global circumstances where shrink of CPT industry is seen, the Group sold 15.02 million CPTs during the year, which grew by 4.7% over 2005 and attained a historical record. The domestic market share reached 22.3%, securing the leading position in the industry. Profit growth, in particular, is secured as, through our effort, the decline of cost exceed that of the product price. Hence, the strategy of strengthening CPTs achieved initial success.

Clear vision of "exploring new businesses"

In addition to "strengthening CPTs", the idea of "exploring new businesses" was further confirmed in 2006. We believed that only by developing new business of profit growth, the Group can achieve lasting and sustainable development and generate better return to shareholders.

Clear vision of "exploring new businesses" *(continued)*

In 2006, the Group's strategy of "exploring new businesses" had solid achievement. The industrialization of PDP began with the establishment of a joint venture with Sichuan Changhong. The development of trichromatic phosphor used in energy saving lamps had progress in 2006, with 410 tonnes sold in 2006. Such scale of production was the largest in the PRC. Further there may be some promising development in the future: A glass based panel project for LCD invested by the controlling shareholder of the Company, IRICO Group Corporation, has initiated. Its construction will end the complete dependence on imported LCD glass based panel. This is essential in improving the FPD industry chain in the PRC and has been highly recognized and supported by the relevant government authorities. The Company will closely monitor such development. Other new projects such as FPD-related businesses were also effectively under progress.

Confidence in the future

The tasks were difficult in 2006, but we are determined to succeed. Thanks to the decisive and assertive management team, the Group has strong comparative advantages and will adopt a sound operation policy. We are capable to deal with the changes in the CPT industry to achieve higher operating effectiveness. Meanwhile, the transformation of business will be carried out as scheduled.

Looking ahead, our strategies are: 1) to fully understand the nature of the competition facing the CPT business and take initiative to the challenges. We will further cut costs through measures including technological innovation, improvement in internal management and the enhancement in management procedure and workflow efficiency, and to quicken the development of super slim, high definition CPTs to continue to adjust and optimize the product structure of CPTs to capture market opportunities and improve the market share; 2) to fully utilize the internal and external resources of the Company with focus on modern display devices, components materials and optoelectronics-related business for advancing the process of new business. The Group actively participated into development of flat panel display devices industry in the PRC. The Group also kept a close eye on the progress of the project of glass based plate for LCD invested by its parent company, and continued to pay attention to the development of modern display such as FED. All these enabled IRICO to become a leading force in promoting the development of flat panel display devices industry in the PRC. With utilization of the resources advantages of the existing businesses of glass, phosphor materials production and metal processing, we seek to develop new business in related industries. Further, we will seek and speed up the development of the optoelectronic businesses such as LED.

To enhance risk management level we will continue to improve our internal control and internal audit, and be more cautious in our future business operation and capital investment in order to avoid risk, no matter in the CPT business or new business.

We will continue to conduct survey on the industry and on the Company ourselves. We will strive to achieve stable cash flow and profit from our current business transactions and through innovative businesses to obtain new profit growth gradually, so as to succeed in the strategic transformation.

Our vision is to become an important force in optoelectronic and modern display device domestically and globally. We target to reward the shareholders with promising results.

Chairman's Statement (Continued)

Acknowledgement

I have pleasure to extend the gratitude on behalf of the board to (the "Board") of the directors (the "Directors") of the Company shareholders, business partners and members of the community for their care and support for the Company, and express my heartfelt gratitude to all management members and employees for their dedicated efforts at work.

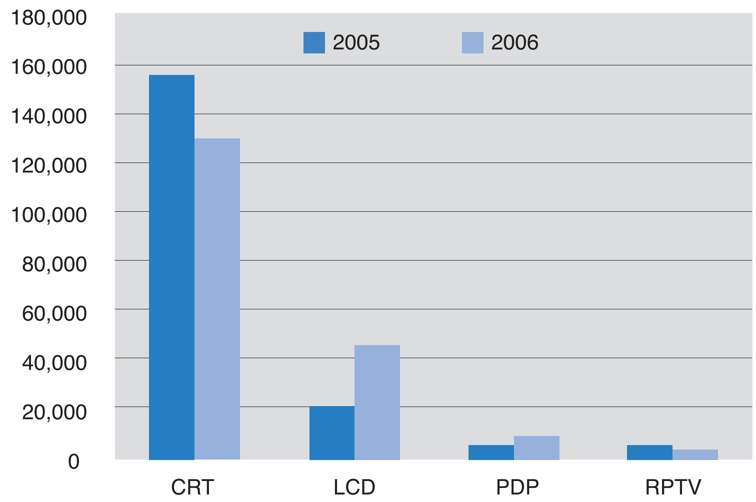
IRICO Group Electronics Co., Ltd.
Xing Daoqin
Chairman

Xianyang, the PRC
12 April 2007

1 Analysis on the industry

In 2006, given the price of FPD television set such as LCD/PDP continued to fall significantly, the pace of FPD television sets in replacement of the CRT television sets accelerated across the globe. In major developed countries, sales of FPD television sets have outpaced that of CRT television sets. According to a research report on global television market issued by Displaysearch in the first quarter of 2007, the average selling price ("ASP") of LCD and PDP television sets across the world in the fourth quarter of 2006 dropped by 21% and 29% respectively when compared with the fourth quarter of 2005. Among them, the price of some large-sized television sets even dropped by over 30%, which pushed the market share of FPD television sets to over 30% in term of sales volume. The sales volume, market share and value of global CRT television sets market also slide down. In 2006, CRT television set industry recorded sales volume of 130 million sets, representing a fall of 16% over the same period of 2005 year, among which, large-sized CRT television sets were worst hit. As indicated by data from Displaysearch, global sales volume of over 30" CRT television sets fell by 30% over the same period last year, being the biggest fall in all sizes of CRT television sets. In term of value, the market share of CRT television set in 2006 fell to a record low of 26.5%, representing a fall of 12 percentage points over the same period last year.

Technological composition of the global television sets market in 2005-2006 *('000 sets)*



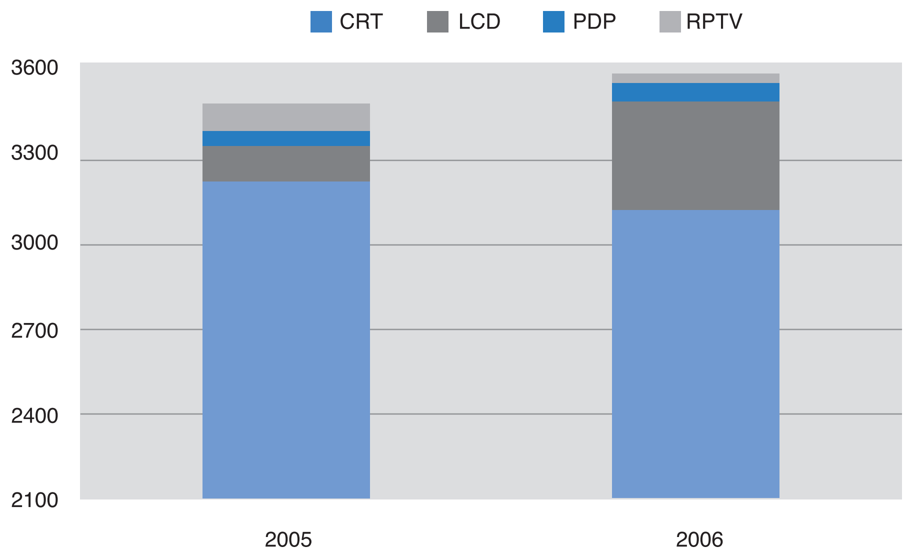
Source: Displaysearch, Report on the global television sets market (2007Q1)

Management Discussion and Analysis (Continued)

1 Analysis on the industry *(continued)*

In the PRC, although the popularity and penetration of FPD television sets are slower than the average level of the world, the pressure of FPD television sets the replacement of replace CRT television sets is ever increasing. As shown by the latest statistics of Sino Market Research Ltd. ("Sino-MR") in the PRC, in 2006, the sales volume of CRT television sets in the PRC was 31.02 million sets, a decrease of 3% compared with that of the previous year, which was the first instance of decrease in the domestic CRT television sets market in the recent decades. Meanwhile, with the continuous decrease in prices of LCD television sets, the sales volume in 2006 increased by 200% to 3.8 million sets when compared with the previous year. Market share also exceeded 10% for the first time.

Technological composition of the television sets market in the PRC in 2005-2006 *(0'000 sets)*

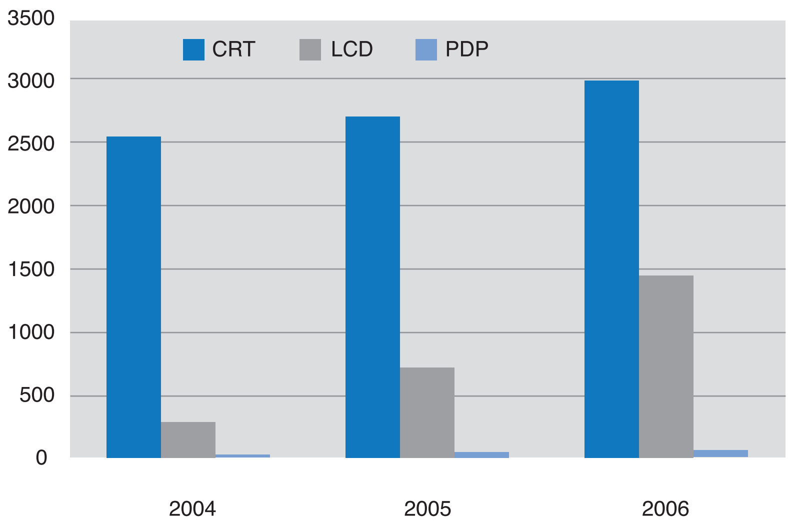


Source: Sino-MR, Blue paper on colour television sets research in the PRC, 06Q4

As one of the largest production bases and the most important consumer market in the world of colour television sets and CPTs, the impact of exports are becoming more significant to the colour television sets and CPTs industries in the PRC. In 2006, the proportion of colour television set in exports exceeded 50% for the first time, in which CRT television sets remain the mainstream despite the slow down of the growth rate of CRT television sets.

1 Analysis on the industry *(continued)*

Export tendency of various types of colour television sets in 2004-2006 *(0'000 sets)*



Source: ChinaCCM.com

Faced with the pressure from the ever expanding FPD television set market, the global CPT industry is under adjustment on ongoing basis. In 2006, six overseas CPT companies closed their over 20 production lines in Europe, North America and East Asia, with the reduction of a production capacity of about 30 million pieces.

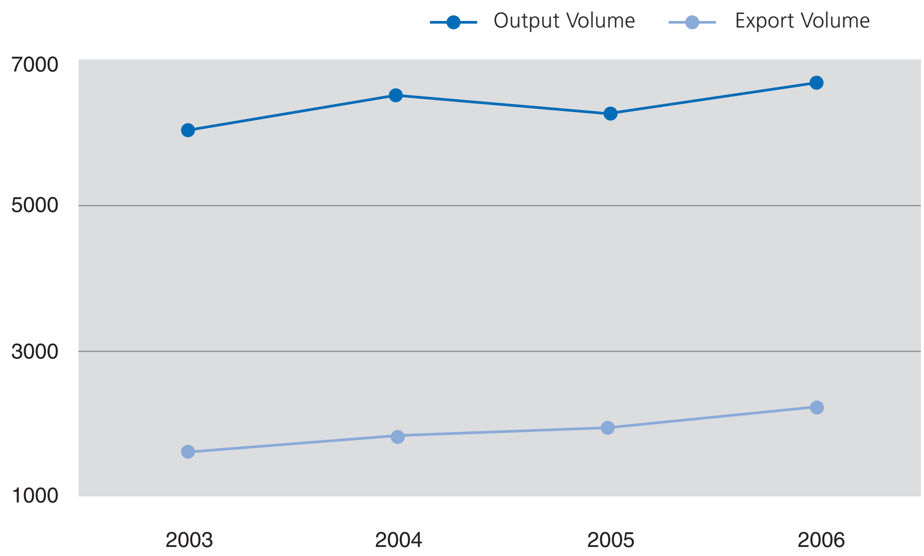
With the competitive advantages of the industry resulting from production chains and labour supply, CPT companies in the PRC on the one hand continuously reduced the cost of existing products to improve the cost-performance ratio, and on the other hand, sought relative advantage through effective adjustment in product mix, such as the increase in the production of super slim CRT. With the more thinner second generation super slim CRT television sets put on the market at the end of 2006, it is expected that the life of the CPT technology will be further extended. Besides super slim CPT, all-flat CRT television sets of certain dimensions and 100HZ tubes that satisfy the SDTV requirement also showed certain market potentials.

Management Discussion and Analysis (Continued)

1 Analysis on the industry *(continued)*

In 2006, the CPT market in the PRC improved as demonstrated by the increased output, alleviated imbalance between demand and supply and decreased inventory. During 2006, the export of CPT maintained a moderate increase, which considerably released the pressure of the decrease in demand in the domestic CRT television set market. The total output of CPT manufacturers in the PRC hit record high of 67.35 million sets in 2006 and recorded an annual growth of 7.3%.

Operation of the CRT industry in the PRC in 2003-2006 *(0'000 sets)*



Source: ChinaCCM.com

With regard to the future CPTs market, since the declining of global CRT television set market already exists and the pressure from FPD television sets to replace CRT ones is ever increasing, the competition in the global CPT industry will be further intensified. However, market opportunities will still exist in the future CPT industry, because on the one hand, CPT still has certain development potential in some market segments such as super slim CPTs and all-flat CPTs, and some CPT manufacturers will be forced out of the market due to the intensifying competition, and on the other hand, the vast CRT television set market and the uneven economic level of different regions and classes worldwide make CRT television sets continued to be an important integral part of the global television set market in a relatively long period. According to the latest estimates of Displaysearch, the absolute volume of CRT television sets in the world will be approximately 70 million with a relative proportion of over 30% by 2010. Therefore, some established, competitive and innovative companies will survive and have opportunities for development, especially for the CPT industry in China which accounts for two-thirds of the share in the world, amid the increasingly stringent operating condition of the global CRT industry in the coming few years and the tight and changing external circumstances in which the PRC CPT industry operates.

2. Business review

(1) Operation highlights

In 2006, the Group successfully turned loss into profit, with a substantial increase in the results performance over 2005 by adoption of a series of active and effective operational tactics and the incessant effort of the staff. On the one hand, the production and sales volume of CPTs attained record high. On the other hand, there was major breakthrough in new business exploration and the strategic transformation.

The sales of the Group in 2006 was RMB3,861,710,000, which was almost the same level of 2005. Operating profit increased by RMB1,089,718,000 to RMB250,337,000. Gross profit margin increased from -11% in 2005 to 13% in 2006. The Company turned loss to profit with its profit attributable to equity holders amounted to RMB129,512,000.

(2) Sales of CPTs

During 2006, the Group sold 15,022,000 CPTs in total, representing an increase of 671,000 units or approximately 4.7%, as compared with 2005. The Group's output volume of CPTs attained record high in 2006 accounted for up to 22.3% of the total output volume of CPT manufacturers in the PRC, securing a leading position in the industry.

In 2006, pursuant to the strategic ideology of "strengthening CPTs and exploring new businesses", the Group adopted a series of cost-leading, marketing-driven and new technology supporting operational strategies to further sharpen its core competitiveness. As a result, the operation of the CPT business of the Group achieved a relatively large growth in 2006 amid the decline in the global CPT business environment.

On the front of cost-leading strategy, the Group undertook various in-depth cost-efficient measures through management and technological innovations, to actively enhance its product popularity, cost efficiency and quality, and also to improve internet procurement and staff positioning in order to further reduce cost.

2. Business review *(continued)*

(2) Sales of CPTs *(continued)*

With regard to marketing-driven strategy, the Group further improved its market operation to achieve better sales and production cycle. The Group strengthened its market projection, customers positioning and effective decision making, and its control over the sales process by focusing on the control of orders, refund and the introduction of new products. The Group also modified the mechanism relating to assessment and incentives of salesperson to enhance the quality of its sales team, boosting the sales and speed up cash inflow, and implemented risk management.

With regard to new technology supporting, the Group mainly focused on the research and development of new tubes, new materials and new processes, such as research and development of the 8 types of CPTs, including 15" AK CPTs, 21" AK CPTs, 21" super slim CPTs and 25" AK CPTs, and production of the relevant components. Among these, the three projects of 15" PFAK CPTs, 21" PF super slim CPTs and 25" PFAK CPTs have commenced mass production and launched to the market, which improved the product mix and sharpen competitiveness of the Company.

(3) Sales of CPT Components

In 2006, various components businesses of the Group adjusted their operating strategies to actively explore overseas market to increase revenue, while ensuring internal supply. The sales volume of the components businesses of the Group in 2006 (including part of resources-related new businesses) amounted to RMB518,822,000, representing an increase of 6.7%, as compared with 2005.

2. Business review *(continued)*

(4) Exploring new businesses

While strengthening its CPT business, the Group also made more effort in further exploring new business in 2006, expecting to realize strategic transformation and sustainable development. The Group's focus was on three areas in which the Group is in an advantages position in terms of internal and external resources, namely the modern display devices, component materials and the newly emerging optoelectronic businesses.

- PDP projects

  In 2006, the Group established a joint venture with Sichuan Changhong to invest in the PDP project (reference is made to the announcement and circular to the shareholders of the Group published on 11 October 2006 and 6 December 2006 respectively), with the main products of 42" XGA and 50" HD XGA level PDP modules and 60" FHD PDP modules. The development of PDP has been listed in the development plan under "Eleventh Five-year Plan" of the Ministry of Information Industry of PRC. The Group succeeded in developing 42" VGA, 42" XGA, 50" XGA, 60" XGA PDP modules and possessed an excellent reserve of technology and talents. The PRC is actively creating a favourable environment for the development of production projects for PDP display panels and has introduced relevant complementary production facilities for the formation of a industry chain. The local government will also provide active support in finance, complementary facilities, land planning, tax concession and the introduction of talents.

2. Business review *(continued)*

(4) Exploring new businesses *(continued)*

- Phosphor materials

  Shaanxi IRICO Phosphor Material Co., Ltd. ("IRICO Phosphor"), a subsidiary of the Group, is a specialised manufacturer of phosphor materials. In addition to strengthening its phosphor business for CPTs, IRICO Phosphor started the business of phosphor materials such as trichromatic phosphors for energy saving lamps. In 2006, the Group sold energy saving lamps phosphors of 410 tonnes in total. The market share of the Group in the PRC of the total sales of phosphors increased from 11.5% in 2005 to approximately 17% in 2006, which was leading in the PRC. In 2007, the Group will undertake expansion and renovation of the production capacity of trichromatic phosphors used for energy saving lamps to further enhance its production capacity and market share. In addition, the Group is also active in the phosphor business of new back light phosphors and PDP phosphors.

  In the meantime, A glass based panel project for LCD invested by the controlling shareholder of the Company, IRICO Group Corporation, has initiated. Its construction will end the complete dependence on imported LCD glass based panel. This is essential in improving the FPD industry chain in the PRC and has been highly recognized and supported by the relevant government authorities. Other new projects such as FPD-related businesses were also effectively under progress.

In the meantime, other new projects such as FPD-related businesses were also effectively under progress.

3. Future Prospects

The Group will focus on "strengthening its CPT business and exploring new businesses" in its future development.

The global CPT industry showed a downward trend under the adverse impact of new display devices industry. However, we believe market opportunities still exist in the global CPT industry in coming years because, on the one hand, CPTs still have its development potential in segmented markets such as super slim CPTs and all-flat CPTs, and on the other hand, given the large user base of CRT television market and the imbalanced income gap among different countries and social classes , CRT televisions will be a core integral part of the global television set market in the long run. Those established, competitive and innovative manuufacturers will still be able to survive the competition and grasp the development opportunities, particularly in the CPT market in the PRC which accounts for two-thirds of global market share. The Company believes more of these opportunities will be available.

As the largest CPT manufacturer in China and a major CPT manufacturer in the world, the Group will continue to consolidate its existing CPT business and increase the competitiveness of its CPT business by implementing new technology support, marketing-based and cost-leading strategies. The objective is to secure stable income and cash flow, laying a solid foundation for the Group's next strategic transformation.

On the other hand, it is an unarguable fact that new display devices are replacing traditional CPT. The future tasks of the Group will be centered on new production and exploring new businesses for new profit growth and the smooth implementation of strategic transformation.

In respect of new business exploration, the Company, by capitalizing the respective enterprises' advantages of specialized production of components, will actively make efforts on research and development of new products, such as strengthening development of phosphor materials ,glass products and metal processing and introduction of resources-related products, in pursuit of diversified development and stable improvement of its operation.

In the meantime, by leveraging its advantages on internal and external resources, the Group is actively developing new display devices and optoelectronics businesses. The Group kept a close eye on the progress of the project of glass based plate for LCD invested by its parent company and the development of modern display such as FED, entered into new businesses relating to LCD and its components , whole devices and LED etc at an appropriate time. All these enabled IRICO to become a leading force in promoting the development of flat panel display devices industry in the PRC.

We believe, with our dedication, the Group will become an enterprise with growth potential in display devices market in the information technology industry in the PRC and the world.

4. Financial review

(1) Results performance

Profit and loss data for 2002 - 2006 *(RMB'000)*

	2002	2003	2004	2005	**2006**
Turnover	3,999,378	4,269,781	4,949,683	3,927,500	**3,861,710**
Sales of CPTs	3,723,889	3,888,156	4,466,767	3,441,096	**3,342,888**
Sales of CPT components	275,489	381,625	482,916	486,404	**518,822**
Cost of sales	(3,079,581)	(3,256,959)	(3,896,956)	(4,357,371)	**(3,356,160)**
Gross profit/(loss)	919,797	1,012,822	1,052,727	(429,871)	**505,550**
Operating expenses					
Administrative expenses	(219,788)	(227,275)	(219,008)	(278,875)	**(241,113)**
a) General administrative expenses	(165,942)	(195,665)	(172,028)	(241,935)	**(215,196)**
b) Research and development expenses	(53,846)	(31,610)	(46,980)	(36,940)	**(25,917)**
Selling and marketing costs	(102,130)	(103,405)	(113,323)	(152,565)	**(150,343)**
Other operating expenses	(69,524)	(73,604)	(79,275)	(36,968)	**(38,381)**
Operating profit/(loss)	591,787	679,766	713,020	(839,381)	**250,337**
Finance costs	(78,853)	(56,588)	(62,966)	(70,096)	**(61,849)**
Profit/(loss) attributable to the equity holders of the Company	277,103	315,825	385,327	(754,547)	**129,512**

4. Financial review *(continued)*

(1) Results performance *(continued)*

Turnover by product and gross profit margin *(RMB'000)*

Name	2005	2006	Increase/ (decrease)	Percentage of change
CPTs	3,441,096	**3,342,888**	(98,208)	(2.85%)
Including: Small-sized CPTs	852,268	**660,975**	(191,293)	(22.45%)
Medium-sized CPTs	2,570,102	**2,673,543**	103,441	4.02%
Large-sized CPTs	18,726	**8,370**	(10,356)	(55.30%)
CPT components	486,404	**518,822**	32,418	6.66%
Total	3,927,500	**3,861,710**	(65,790)	(1.68%)

Sales volume by product *(Unit)*

Name	2005	2006	Increase/ (decrease)	Percentage of change
Including: Small-sized CPTs	5,342,504	**4,727,121**	(615,383)	(11.52%)
Medium-sized CPTs	8,980,939	**10,279,499**	1,298,560	14.46%
Large-sized CPTs	28,102	**15,996**	(12,106)	(43.08%)
Total	14,351,545	**15,022,616**	671,071	4.68%

4. Financial review *(continued)*

(1) Results performance *(continued)*

ASP by product *(RMB/Unit)*

Name		2005	**2006**	Increase/ (decrease)	Percentage of change
Including:	Small-sized CPTs	160	**140**	(20)	(12.50%)
	Medium-sized CPTs	286	**260**	(26)	(9.09%)
	Large-sized CPTs	666	**523**	(143)	(21.47%)

(2) Change over last year and reasons

- Turnover and gross profit margin

  In 2006, the Group recorded a turnover of RMB3,861,710,000, representing a decrease of RMB65,790,000, or 1.68% from the same-period in 2005. Turnover of the CPT business amounted to RMB3,342,888,000, representing a year-on-year decrease of RMB98,208,000, or 2.85% from the same-period in 2005. Turnover of the component business increased by RMB32,418,000, or 6.66% to RMB518,822,000. The overall gross profit margin of the Group decreased from -10.95% of 2005 to 13.09% of 2006. This was mainly due to: 1) provision for diminution in value of certain productive assets in 2005 amounting to approximately RMB567,659,000 and provision for diminution in value of certain productive assets in the year amounting to approximately RMB67,205,000; 2) the enhancement of product mix and the reduction in costs as a result of the strengthening of various measures by the Company.

- Administrative expenses

  The Group's administrative expenses in 2006 decreased by RMB37,762,000, or 13.54%, to RMB241,113,000 from RMB278,875,000 in the same-period of 2005.The decrease in administrative expenses was mainly due to: 1) the provision of staff compensation in the previous year; 2) the completion of part of the amortization of intangible assets in the year.

- Finance costs

  The Group's finance costs for 2006 recorded RMB61,849,000 , representing a decrease of RMB8,247,000, or 11.77%, from RMB70,096,000 in the same-period of 2005, which was mainly attributable to the decrease in bank loans in the year.

4. Financial review *(continued)*

(3) Net current assets and financial resources

As at 31 December 2006, the Group's cash and bank balances aggregated to RMB479,503,000, representing a decrease of 18.43% from RMB587,838,000 as at 31 December 2005. The Group expended RMB105,741,000 for capital expenditure for property plant and equipment during the year ended 31 December 2006. Net cash inflow from operating activities was RMB363,290,000, and net cash outflow from financing activities and investing activities were RMB380,099,000 and RMB121,535,000 respectively. As at 31 December 2006, the Group's borrowings totalled RMB932,676,000 as compared to RMB1,260,177,000 as at 31 December 2005. The borrowings would all be due within one year.

As at 31 December 2006, the Group's short-term bank loans amounting to approximately RMB140,000,000 (as at 31 December 2005: RMB280,000,000) were secured by its land use right properties, plants and equipment with a net book value of RMB226,039,000 (as at 31 December 2005: RMB284,673,000). As at 31 December 2006, the short-term bank loans guaranteed by the Company's ultimate holding company, IRICO Group Cororation, amounted to RMB640,000,000 (as at 31 December 2005: 440,000,000). For the year ended 31 December 2006, the turnover period for accounts receivable of the Group was 141 days, representing a increase of 6 days from 135 days for the year ended 31 December 2005, which was mainly attributable to the intensified competition in the CPT market and changes in payment terms and logistic flow. For the year ended 31 December 2006, the inventory turnover period for the Group was 69 days, representing a increase of 5 days from 64 days for the year ended 31 December 2005, which was mainly attributable to the intensified competition in the CPT market.

(4) Capital Structure

As at 31 December 2006, the Group's borrowings were mainly denominated in Renminbi and US dollars, while its cash and bank balances were mainly denominated in Renminbi, Hong Kong dollars and US dollars. The Group intends to maintain a suitable ratio of share capital to liabilities, so as to ensure an effective capital structure from time to time. As at 31 December 2006, its liabilities including bank loans aggregated to RMB 2,274,446,000 with cash and bank balances totalling RMB479,503,000 and a gearing ratio (defined as: total liabilities/total assets) of 41%.

(5) Dividend

The Company's original dividend policy will remain unchanged. In Light of the absence of accumulated surplus in 2006, the Board resolved not to distribute any final dividend.

4. Financial review *(continued)*

(6) Foreign exchange risk

The Group's income and most of its expenses are denominated in Renminbi and US dollars. For the 12 months ended 31 December 2006, there was no material impact on the Group's operation or working capital resulting from exchange rate fluctuations.

(7) Commitments

As at 31 December 2006, capital commitments of the Group amounted to RMB153,810,000 (31 December 2005: RMB234,810,000), which were mainly financed by the Group's working capital.

(8) Contingent liability

As at 31 December 2006, apart from the material ligitimations stated below, the Group had no material contingent liability.

(9) Pledged assets

As at 31 December 2006, the Group had bank loans of RMB140,000,000, secured by its land use rights, properties, plants and equipment with a net book value of approximately RMB226,039,000.

Executive Directors

Xing Daoqin	52	Chairman
Tao Kui	54	Vice Chairman
Guo Mengquan	50	President
Zhang Shaowen	45	
Niu Xinan	46	

Non-executive Director

Zhang Xingxi*	50
Yun Dah Jiunn	52

Independent Non-executive Directors

Feng Fei*	45
Xu Xinzhong*	43
Feng Bing*	40
Wang Jialu	46
Zha Jianqiu*	38

* *Member of the Audit Committee*

Profiles of Directors, Supervisors and Senior Management (Continued)

Mr. Xing Daoqin (邢道欽) is an Executive Director and the Chairman of the Company. Mr. Xing joined the Company in February 1982. He graduated from Xi'an Jiaotong University (西安交通大學) with a bachelor degree in automation. In 1996, Mr. Xing was awarded a special government allowance for experts by the State Council of the PRC. He is a senior engineer at a professor level. Mr. Xing has been acting as the deputy general manager of IRICO Group Corporation since March 2001. Before that, he was the factory manager of Caihong Glass Factory under CPT Plant, the head of the Electronic Glass Department of IRICO Group Corporation and the deputy factory manager of CPT Plant.

Mr. Tao Kui (陶魁) is an Executive Director and the Vice Chairman of the Company. Mr. Tao had joined the Company in September 1978. He graduated from South East University (東南大學) (formerly known as Nanjing Institute of Technology) with a bachelor degree in electrical vacuum devices and is qualified as a senior engineer. Mr. Tao acted as a director of IRICO Group Corporation from November 1995 to February 2001 and as the deputy general manager of IRICO Group Corporation since March 2001. Before that, he was the factory manager of both the phosphor powder factory and the glass factory under Shaanxi CPT Plant, a director of IRICO Group Corporation and the deputy factory manager of CPT Plant.

Mr. Guo Mengquan (郭盟權) is an Executive Director and President. Mr. Guo joined the Company in September 1983. He graduated from Northwestern Polytechnical University (西北工業大學) with a bachelor degree in control and manipulation of aviation fluid mechanics and from Shaanxi MBA College with an MBA degree. He is a senior engineer at a professor level. Mr. Guo has been acting as the deputy general manger of IRICO Group Corporation since March 2001. Before that, he was the factory manager of the glass plant under CPT Plant.

Mr. Zhang Shaowen (張少文) is an Executive Director. He is responsible for technology management of the Company. Mr. Zhang joined the Company in August 1981. He graduated from the Party School of Shaanxi Provincial Committee (陝西省委黨校) with a bachelor degree in economic management. He is a senior engineer. Mr. Zhang has been acting as the deputy general manager of IRICO Group Corporation since March 2001. Before that, he was the factory manager of both the shadow masks factory and the No. 1 CPT Plant under CPT Plant.

Mr. Niu Xinan (牛新安) is an Executive Director of the Company. Mr. Niu joined the Company in August 1981. He graduated from Northwestern University (西北大學) with a bachelor degree in administrative management and is a senior engineer. Mr. Niu has been serving as the party's Vice-secretary and Secretary to the disciplinary committee of IRICO Group Corporation. In June 2002, he was elected as the Chairman of the labor union of IRICO Group Corporation. Before that, Mr. Niu was the factory manager of No. 1 CPT factory under Shaanxi CPT Plant and the deputy director of its design institute, the manager of Display Devices Department and the factory manager of No. 1 CPT factory under Shaanxi CPT Plant, the factory manager of the Inner Mongolia Television Factory (內蒙古電視機廠) and the deputy factory manager of CPT Plant. Mr. Niu was appointed as a supervisor of the Company in the first general meeting of the Company on 9 September 2004 and was elected the chairman of the Supervisory Committee of the Company ("Supervisory Committee") in its first meeting. He retired from the positions of the chairman of the Supervisory Committee and supervisor in the third meeting of the first Supervisory Committee on 5 August 2005. On 26 June 2006 he was appointed as Executive Director of the Company.

Profiles of Directors, Supervisors and Senior Management (Continued)

Mr. Zhang Xingxi (仉興喜) is a Non-executive Director of the Company and currently the chief economist of IRICO Group Corporation and the manager of the Estate Management Department. Mr. Zhang joined the Company in August 1981. He graduated from the Faculty of Economics at Beijing Normal University (北京師範大學) with the postgraduate study in business administration. He was the general manager of Caihong Hotel (彩虹賓館) in Xianyang City, Shaanxi Province, the general manager of Hainan Caihong Industrial and Trading Corporation (海南彩虹工貿總公司), the manager of both the Audit Department and Human Resources Department of IRICO Group Corporation.

Mr. Yun Dah Jiunn (雲大俊) is a Non-executive Director of the Company. Mr. Yun joined the Company in September 2004. He graduated from National Taiwan University (國立台灣大學) with a bachelor degree in business management. Prior to joining the Company, Mr. Yun acted as the director of finance (Greater China) in BEA Systems HK Ltd., the director of finance and administration and deputy managing director of Compaq in the PRC region and the finance director of Amdocs Development Limited Beijing Representative Office. He also worked for various companies including IBM Company. Mr. Yun was chosen as the "Outstanding Financial Officer" (「傑出財務主持人」) by Financial Executives Institute of the PRC (中華財務立持人協會) in 1993. Mr. Yun was appointed Executive Director and chief financial controller of the Company in September 2004. On 27 December 2006, he resigned from the position of chief financial controller and was re-designated from an Executive Director to a Non-executive Director.

Mr. Feng Fei (馮飛) is an Independent Non-executive Director of the Company and currently the director and a researcher of the Industrial and Economic Research Unit of the Development and Research Center under the State Council (國務院發展研究中心產業經濟研究). Mr. Feng joined the Company in September 2004. He graduated from Tianjin University (天津大學) with a doctoral degree in engineering. He conducted a postdoctoral research on mechanical and electrical engineering at Qinghua University (清華大學). Mr. Feng was awarded a special allowance by the State Council.

Profiles of Directors, Supervisors and Senior Management (Continued)

Mr. Xu Xinzhong (徐信忠) is an Independent Non-executive Director of the Company and currently a professor in Finance in Guanghua Management College of Beijing University and Dean of its Faculty of Finance. Mr. Xu joined the Company in September 2004. Mr. Xu obtained his bachelor degree in meteorology from Beijing University, his MBA degree from Aston University (北京大學) in the United Kingdom and his doctoral degree in finance from Lancaster University in the United Kingdom. He worked as a lecturer and senior lecturer of the Faculty of Accounting and Finance at Manchester University in the United Kingdom and was a professor and a chair in Finance of the Faculty of Management at Lancaster University in the United Kingdom. Mr. Xu has been acting as a professor of Guanghua Management College of Beijing University and Dean of its Faculty of Finance since January 2002. Mr. Xu was also awarded the Prize for the Best Manuscript (最佳論文獎) by British Accounting Review in 1997.

Mr. Feng Bing (馮兵) is an Independent Non-executive Director of the Company and currently an Executive Director and the deputy general manager of China Financial and Consulting Company (中華財務咨詢公司). Mr. Feng joined the Company in September 2004. He obtained his bachelor degree in computer software from Northwestern Polytechnical University, his master degree in engineering from Calculation Technology Research Institute of Chinese Academy of Sciences (中國科學院計算技術研究院) and his master's of science degree in finance from the School of Management at Syracuse University. He was a part-time tutor in optional practical training of the Faculty of Commerce at Syracuse University and a senior manager of Deloitte Touche Tohmatsu in the United States.

Mr. Wang Jialu (王家路) is an Independent Non-executive Director of the Company and a partner of Commerce & Finance Law Office (通商律師事務所). Mr. Wang joined the Company in September 2004. He completed his course for master degree in business administration from Guanghua Management College of Beijing University and the course for juris doctor from Marburg University of Germany, and received his MBA degree from Beijing University and the LLM degree from the law school of Marburg University of Germany. He is an arbitrator in the Beijing Arbitration Commission (北京仲裁委員會) and an adjunct lecturer for master degree course in the Law Faculty of Beijing University.

Mr. Zha Jianqiu (查劍秋) is an Independent Non-executive Director of the Company. He is currently the chairman of Sinohope Certified Public Accountants (北京首華至信會計師事務所), a chief accountant, a senior accountant and is qualified as a CPA and a CPV registered in China. Mr. Zha joined the Company in September 2004. He graduated from Guanghua Management College of Beijing University with a MBA degree in business administration. Mr. Zha worked at the Personnel and Education Division of the National Audit Office of the PRC (國家審計署), and was the departmental deputy manager and the deputy director (deputy chief accountant) of China Huajian Audit Firm (中國華建審計事務所). From 2001 and 2003, he was the deputy director of Tianzhi Zixin Accounting Firm (天職孜信會計師事務所) and the head of its management and consulting department.

Other senior management

Wang Ximin	55	Vice president
Zhang Chunning	47	Joint Company Secretary
Zhang Junhua	48	Vice president
Li Miao	42	Vice president
Lam Chun Lung	34	Qualified accountant and Joint Company Secretary
Li Shikun	46	Chief Financial Controller

Mr. Wang Ximin (王西民) was re-appointed as the Vice president of the Company from the position of assistant to the president of the Company with effect from 5 August 2005. He is responsible for the sales management of the Company. Mr. Wang had joined the Company in September 1978. Mr. Wang received his bachelor degree in electrical vacuum devices from Xi'an Jiaotong University and his master degree in business administration (MBA) from the Shaanxi MBA College (陝西工商管理碩士學院) in 2001. He is a senior engineer. Prior to joining the Company, Mr. Wang has been acting as the head of the Production Department of IRICO Group Corporation since April 2001. Before that, he was appointed as the No. 1 deputy director of the Technology Department of Shaanxi Color Picture Tube Plant, the manager of Caihong Sales Company under CPT Plant and the deputy head of the Technology Center of CPT Plant.

Mr. Zhang Chunning (張春寧) is a Joint Company Secretary of the Company. He is responsible for the securities management, the legal matters, and investors' relationship of the Company. Mr. Zhang graduated from the Faculty of Chemistry at Northwestern University in 1985 with a bachelor degree in science (chemistry) and from Xi'an Jiaotong University with a master degree in management (business administration). He is now pursuing his doctorate education in management (business administration) at Xi'an Jiaotong University. Mr. Zhang joined the Company in 1985. He has 16 years of business and management experience in the CPT industry. Before that, he was the deputy officer and officer of the No. 2 Factory under Shaanxi CPT Plant, the acting factory manager and factory manager of Caihong Phosphor Factory under CPT Plant, the general manager of Shaanxi IRICO Phosphor Materials Co., Ltd. (陝西彩虹螢光材料有限公司) and the assistant to the president of the Company.

Mr. Zhang Junhua (張君華) was appointed as Vice President of the Company with effect from 5 August 2005. He is responsible for management on the Company's manufacturing .Mr. Zhang joined the Company in December 1984. He graduated from Shaanxi Mechanical College with a bachelor's degree in machinery manufacturing and is a senor engineer. At present, he serves as chairman of Xi'an New Century Club, chairman and general manager of Xianyang IRICO Digital Display Technology Co., Ltd and chairman of Xi'an Caihui Display Technology Co., Ltd. Before that, he had acted as deputy head and head of Metering & Energy- Conservation Department of No. 2 CPT Factory under CPT Plant, assistant to the general manager, the deputy general manager, general manager and vice chairman of IRICO Display Devices Co., Ltd.

Other senior management *(continued)*

Mr. Li Miao (李淼) was appointed as Vice President of the Company with effect from 5 August 2005.He is responsible for the technology and quality management of the Company. Mr. Zhang joined the Company in July 1985. He graduated from Xi'an Jiaotong University with a bachelor's degree in electronic vacuum and is a senor engineer. He was the vice director, director of electron gun workshop, director of technology section, director of planning section, director of front assembly workshop, vice factory director and factory director of No.1 CPT factory under CPT plant as well as general manager of IRICO Display Technology Co., Ltd ("IRICO Display").

Mr. Lam Chun Lung (林晉龍) was appointed as the Company's qualified accountant and Joint Company Secretary with effect from 26 August 2006. Mr. Lam graduated from The Hong Kong University of Science and Technology with a first honour bachelor degree in business administration (accounting) in May 1998, and from the City University of Hong Kong with a master degree in business administration in July 2006. He had been the head of auditing in S C To & Co. (杜昭紹會計師事務所) and accounts and finance manager of Colliers Jardine International. Mr. Lam is a member of the Association of Chartered Certified Accountants and Hong Kong Institute of Certified Public Accountants.

Mr. Li Shikun (李世坤) is currently the Chief Financial Controller of the Company. He was appointed as the vice president and investment director of Trade Management Incorporation from 2005 to February 2007. From 2003 to 2005, he was President and Vice President of the operation management of Beijing headquarter of North West Securities. From 2004 to 2007, he was also the deputy secretary of Capital Enterprise Reform and Development Research Society (首都企業改革與發展研究會). From 2001 to 2003, he was the General Manager of Beijing Yushi Rongxin Investment Consultancy Limited (北京喻世融信投資顧問公司). From 1996 to 2001, he was Vice President of Tairun Investment Management Company (泰潤投資管理公司). From 1997 to 1998, he was a professional researcher in China Academy of Social Science specialized in monetary banks. From 1993 to 1995, he was the Beijing Chief Representative of Canada Lin's Group. From 1990 to 1993, he was the financial controller of Kenang Company (科能公司) of Chinese Academy of Science. From 1983 to 1989, he had worked in Langfang Hubei Province of Administrative Office (河北省廊坊行政公署) (currently known as Langfang Municipal Government).

Supervisors

Fu Jiuquan	37	Shareholder Supervisor and Chairman of the Supervisory Committee
Zhang Zhankui	56	Shareholder Supervisor
Zhang Weichuan	52	Employee Supervisor
Sun Haiying	63	Independent Supervisor
Wu Xiaoguang	49	Independent Supervisor

Mr. Fu Jiuquan (符九全) was appointed as the Chairman of Supervisory Committee with effect from 5 August 2005 and currently the deputy chief accountant of IRICO Group Corporation. Mr. Fu joined in July 1990 the Company. Mr. Fu graduated from Guilin Electronic Industry College (桂林電子工業學院) with a bachelor degree in finance and accounting. He is a senior accountant. He was appointed as the director of the Finance Division of CPT Plant and the manager of the Assets Finance Department of IRICO Group Corporation.

Supervisors *(continued)*

Mr. Zhang Zhankui (張佔奎) joined the Company in August 1982. Mr. Zhang is currently the Chief of the Supervisory Division of IRICO Group Corporation. Mr. Zhang graduated from Chengdu Telecommunication Engineering College (成都電訊工程學院) with a bachelor degree in electronic engineering specialized equipment and automation and is a senior engineer. He was the deputy factory manager and factory manager of the power factory, head of Power and Energy Operation Division, deputy chief engineer and head of Human Education Division of CPT Plant, factory manager of No. 1 Xi'an Wireless Communication Plant, general manager of Xi'an IRICO Electronic Industrial Co. Ltd., and head of Human Resources Department of IRICO Group Corporation.

Mr. Zhang Weichuan (張渭川) was appointed as an employee Supervisor with effect from 10 September 2004. He is the manager of the Strategic Planning Department of the Company. Mr. Zhang had joined the Company in August 1978 and is currently the head of the Technology and Quality Department of the Company. He graduated from Northwestern Telecommunication Engineering College (西北電訊工程學院) with a bachelor degree in electrical vacuum devices. He is a senior engineer at a researcher level. He was the director of the Quality Assurance Department of CPT Plant, the deputy chief engineer of CPT Plant and the manager of the Technology and Quality Department of the IRICO Group Corporation.

Mr. Sun Haiying (孫海鷹) was appointed as an independent Supervisor with effect from 10 September 2004 and is currently the head and a professor of the Environmental Science and Engineering Technical Centre of Xi'an Jiaotong University, a member of the Standing Committee of the Chinese People's Political Consultative Conference and the head of the Department of Science and Technology of Shaanxi Province, an adjunct professor of the Institute for Enterprises of the Hong Kong Polytechnic University. Mr. Sun graduated from the Northwestern University in geography and was director of the Shaanxi Province Meteorological Bureau (陝西省氣象局), the director of Shaanxi Province Science and Technology Department (陝西省科學技術廳). He was a group leader of the Planning Strategy Study Group under the State Mid- and Long-term Science and Technology Development Planning Team (國家中長期科學和技術發展規劃領導小組的規劃戰略研究專照組) in August 2004.

Ms. Wu Xiaoguang (吳曉光) was appointed as an independent Supervisor with effect from 10 September 2004. She is currently a deputy professor of the Management Faculty at Xi'an Jiaotong University. She received her bachelor degree in economics from the Economic Management College of Northwestern University. She was a graduate majoring in accounting in management school of Xian Jiaotong University, and is studying MBA programme in the Hong Kong Polytechnic University. Ms. Wu is a part-time professor of the Chinese (Hainan) Reform and Development Research Institute (中國(海南)改革發展研究院), the chairman and general manager of Xi'an Wanguantong Financial Management Consulting Co., Ltd., an expert consultant of Shaanxi Province Venture Capital Association. She holds positions as expert consultant in Beijing Jinrui Junan Taxation Co. Ltd., China Tax Consulting Information Web, China Industry and Economic News Web and Beijing Zhongbao Weiye Information Consulting Firm.

Report of the Directors

The Board hereby presents the report of the Directors and the audited accounts of the Group for the year ended 31 December 2006 to the shareholders.

Principal operations

The Group is principally engaged in the production and sales of CPTs and CPT components.

Results and dividend

In 2006, the Group has achieved a substantial improvement in the results performance over 2005 by adoption of a series of active and effective sales tactics and the incessant effort of the staff. On the one hand, the production and sales volume of colour picture tubes ("CPTs") attained record high. On the other hand, there was major breakthrough in new business exploration and strategic transformation.

The sales of the Group in 2006 was RMB3,861,710,000, which was almost the same level of 2005. Operating profit increased by RMB1,089,718,000 to RMB250,337,000. Gross profit margin increased from -11% in 2005 to 13% in 2006. The Company turned loss to profit with its profit attributable to equity holders amounted to RMB129,512,000.

The Company's original dividend policy will remain unchanged. In light of the absence of accumulated surplus in 2006, the Board resolved not to distribute any final dividend.

The annual results of the Group for the year ended 31 December 2006 and its financial status as at the same day prepared in accordance with accounting principles generally accepted in Hong Kong are set out on page 68 to page 140 of this annual report.

Five year financial summary

A summary of the published results and assets, liabilities and minority interests of the Group for the last five years, as extracted from the audited financial statements and adjusted (in applicable), is set out in page141 of this annual report. This summary does not form a part of the audited financial statements.

Property, plant and equipment

Details of the movement of property, plant and equipment of the Group in the year are set out in note 5 to the financial statements.

Share capital

Details of the changes in the Company's share capital, together with the reasons therefore, are set out in note 14 to the financial statements.

Purchase, redemption and sale of shares of the Company

Save as is disclosed in this annual report, neither has the Company nor any of its subsidiaries purchased, redeemed or sold any of its shares during the year.

Reserves

Details of the movement of reserves of the Company and of the Group during the year are set out in note 16 to the financial statements.

Major customers and suppliers

The percentage of purchase from and sales to the major suppliers and customers of the Group is set out as follows:

Purchase

– largest supplier 3%
– five largest suppliers 10%

Sales

– largest customer 19%
– five largest customers 65%

Due to the varieties of the Company's production materials, the Company has not yet sought an established supplier with strength sufficient to provide a relatively high proportion of raw materials. Hence, the five largest suppliers represent 10% in total. None of the Directors, their respective associates or any shareholder who, as far as the Directors are aware, holds 5% or more of the Company equity interests had any interest in the above-mentioned major suppliers and customers.

Election of Directors and Supervisors

Directors and Supervisors of the Company

The Directors and Supervisors during the year were as follows:

Executive Directors:
Xing Daoqin *Chairman*
Tao Kui *Vice Chairman*
Guo Mengquan *President*
Zhang Shaowen
Niu Xinan

Non-executive Directors:
Zhang Xingxi
Yun Dah Jiunn

Independent Non-executive Directors:
Feng Fei
Xu Xinzhong
Feng Bing
Wang Jialu
Zha Jianqiu

Supervisors:
Fu Jiuquan
Zhang Zhankui
Zhang Weichuan
Sun Haiying
Wu Xiaoguang

Brife biographical details of Directors, Supervisors and Senior Management are set out on page 23 to 29.

Each of the independent non-executive Directors has issued a confirmation in respect of the factors set out in Rule 3.13 of the Listing Rules concerning his independence pursuant to Rule 3.15 of the Listing Rules. The Company considers all of the independent non-executive Directors to be independent.

The existing Directors and Supervisors of the Company were elected at the general meeting held on 9 September 2004, with a term of 3 years. On 29 June 2006 Mr. Niu Xinan was appointed Executive Director by the Board and Mr. Zhang Zhankui was appointed by the Supervisory Committee as supervisor. On 27 December 2006 Mr. Yun Dah Jiunn resigned from the position of chief financial controller and was re-designated from an Executive Director to a Non-executive Director.

Remuneration of Directors and the five highest paid individuals

Details of the remuneration of directors and the five highest paid individuals of the Group are set out in note 26 to the financial statements.

Management contracts

Save for the contracts in relation to connected transactions as stated in this report, no contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Share Appreciation Rights Plan

Pursuant to the Share Appreciation Rights Plan of the Company (details of which were set out in the Company's prospectus dated 8 December 2004), up to 31 December 2006, the following Directors, Supervisor and senior management members were granted share appreciation rights by the Company as follows:

Name	Number of Share Appreciation Rights (Shares)	Note
Xing Daoqin	1,500,000	Director
Tao Kui	1,330,000	Director
Guo Mengquan	1,130,000	Director
Zhang Shaowen	1,000,000	Director
Yun Dah Jiunn	600,000	Director
Niu Xinan	400,000	Director
Zhang Weichuan	320,000	Supervisor
Zhang Chunning	670,000	Senior Management
Wang Ximin	670,000	Senior Management
Zhang Junhua	590,000	Senior Management
Li Miao	590,000	Senior Management

Note: Ng Yuk Keung owned 400,000 share appreciation rights as at 31 December 2006 as a senior management member. However, Ng Yu Keung has resigned as qualified accountant and joint company secretary of the Company on 26 August 2006 but still owned the 400,000 share appreciation rights. In 2007, the Company has granted further share appreciation rights to the following Directors, Supervisors and senior management, namely, Directors: Xing Daoqin for 700,000 shares, Tao Kui for 530,000 shares, Guo Mengquan for 530,000 shares, Zhang Shaowen for 400,000 shares, Niu Xinan for 400,000 shares; Supervisor: Zhang Weichuan for 200,000 shares; and senior management: Zhang Chunning for 300,000 shares, Wang Ximin for 300,000 shares, Li Mao for 300,000 shares, Zhang Junhua for 300,000 shares and Li Xikun for 300,000 shares.

Directors' and Supervisors' equity interest

Save as to the interests mentioned in the section headed "Share Appreciation Rights Plan" above, as at 31 December 2006, none of the Directors, Supervisors or senior management members of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which shall be recorded in the register of members required to be kept by the Company pursuant to section 352 of the SFO, or which was otherwise required to be notified to the Company or The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"). During the year, none of the Directors, Supervisors or senior management members of the Company or their spouses or children under the age of 18 held the right to purchase the share capital or debentures of the Company, neither did they exercise such right.

Directors' and Supervisors' interests in contracts

At end of the year and any time during the year, save for the service contract in relation to the Company's business, none of the Company, its holding company or subsidiaries entered into any contract of significance in which the Director or Supervisor of the Company held, either directly or indirectly, any material interest. For the year ended 31 December 2006, no Director or Supervisor of the Company gave up or agreed to give up any remuneration arrangement.

Service contracts

The Company has entered service contracts with Directors and Supervisors. None of the Directors or proposed directors of the Company had any existing or proposed service contract with any member of the Group (excluding contracts expiring or terminable by the employer within a year without payment of any compensation (other than statutory compensation).

Interests and short positions of Directors, Supervisors and Senior Management

Save as to the interests mentioned in the section headed "Share Appreciation Rights Plan" above, as at 31 December 2006, none of the Directors, Supervisors, Chief Executive or senior management members of the Company or their respective associates had any interest or short position in the shares, underlying shares and/or debentures (as the case may be) of the Company and / or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interest and short positions which any such Directors, Supervisors, Chief Executive or senior management member was taken or deemed to have under such provisions of the SFO), or which was otherwise required to be entered in the register of interests to be kept by the Company pursuant to section 352 of the SFO, or which was otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

Interests and short positions of substantial shareholders and other parties

So far as the Directors are aware, each of the following persons, not being a Director, Supervisor, Chief Executive or member of the Company's senior management, had an interest or short position in the Company's shares or underlying shares (as the case may be) as at 31 December 2006 and as entered in the register of interests to be kept pursuant to section 336 of the SFO:

IRICO Group Corporation had interests in 1,455,880,000 Domestic Shares of the Company (representing 100% of the Domestic Share capital), whereas HKSCC Nominees Limited had interests in 483,889,990 H Shares of the Company (representing 99.71% of the H Share capital).

Notes:

As at 31 December 2006, based on the information available to Directors and so far as the Directors are aware, HKSCC Nominees Limited held 483,889,990 H Shares, among which:

J.P. Morgan Fleming Asset Management Holdings Inc. and J.P.Morgan Fleming Asset Management (Asia) Inc. through their controlled corporations had interests in 33,742,000 H Shares of the Company (representing approximately 6.95% of the H Share capital).

Pictet Asset Management on behalf of Pictet Funds Asian Equities had direct interests in 33,226,000 H Shares of the Company (representing approximately 6.85% of the H Share capital).

Derby Steven P., Goldfarb Lawrence and Lamar Steven M. through their controlled corporations had interests in 49,554,000 H Shares of the Company (representing approximately 10.21% of the H Share capital).

JF Asset Management Limited through its controlled corporations had interests in 33,198,000 H Shares of the Company (representing approximately 6.84% of the H Share capital).

Designated deposit and overdue time deposit

As of 31 December 2006, the Group had no designated deposits in any financial institutions in the PRC. All of the Group's bank deposits are lodged in commercial banks in the PRC, and are in compliance with the relevant laws and regulations.

Employees

As at 31 December 2006, the Group had 13,036 employees with various talents, of whom approximately 4.3% were management and administrative personnel, 5.6% were technological personnel, 0.7% were accounting and audit personnel, 0.6% were sales and marketing personnel, 85% were production employees and 3.5% were others. The employment and remuneration policy of the Company remained the same as set out in the Company's prospectus dated 8 December 2004. With full enthusiasm in work, the Group's employees are committed to ensure the high quality and reliability of products and services.

Connected transactions

The connected transactions recorded during the year and up to the date of this report are as follows:

I. Continuing connected transactions during the year

For the year ended 31 December 2006, there were various continuing connected transactions between the Group and IRICO Group Corporation, IRICO Display, Xianyang IRICO Electronics Shadow Mask Co., Ltd. ("IRICO Shadow Mask"), IRICO Phosphor, Xianyang Cailian Packaging Material Company Limited ("Xianyang Cailian"), details of which are set out in the Company's prospectus dated 8 December 2004.

Pursuant to Rule 14A.42(3) of the Listing Rules, the Stock Exchange has granted to the Company a waiver from strict compliance with the otherwise applicable announcement and / or independent shareholders' approval requirements in connection with these continuing connected transactions (the "Waiver").

Connected transactions *(continued)*

I. Continuing connected transactions during the year *(continued)*

For the year ended 31 December 2006, the approved annual cap and the actual revenue or expenditure in respect of each continuing connected transactions are set out below:

Item	Approved annual cap for 2006 *RMB'000*	Actual revenue or expenditure for 2006 *RMB'000*
Supply of fuel, coal, industrial chemicals products and raw materials to IRICO Group Corporation	96,844	22,920
Supply of parts and raw materials to IRICO Display, IRICO Phosphor and IRICO Shadow Mask	684,315	576,090
Purchase of foam plastics, gloves, wood brackets and raw materials from IRICO Group Corporation	231,218	123,086
Purchase of phosphor and shadow mask from IRICO Phosphor and IRICO Shadow Mask	228,025	166,967
Purchase of packaging materials, adhesive tapes and plastic materials from Xianyang Cailian	66,832	48,665
Utilities obtained from IRICO Group Corporation	696,793	454,899
Social and ancillary services obtained from IRICO Group Corporation		
(a) IRICO School	10,334	6,066
(b) Social welfare facilities	2,814	2,416
(c) Security services	800	800
(d) Environmental hyginene and landscaping services	1,200	100
Rental payable to IRICO Group Corporation	40,739	35,665
Land use rights leasing fees payable to IRICO Group Corporation	4,218	4,218
Trademark licensing fees payable to IRICO Group Corporation	7,800	3,828
Equipment Leasing fees payable to Xi'an Guangxin Electronic Co., Ltd.	1,500	—

Connected transactions *(continued)*

I. Continuing connected transactions during the year *(continued)*

The Independent Non-executive Directors had reviewed these continuing connected transactions and confirmed to the Board that these transactions have been entered into:

(1) in the ordinary and usual course of business of the Group;

(2) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and

(3) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company had provided a letter to the Directors of the Company confirming that the continuing connected transactions:

(1) had received the approval by the Board of the Company;

(2) were in accordance with the pricing policies of the Company;

(3) had been entered into in accordance with the relevant agreements governing these transactions; and

(4) had not exceeded the caps set out in the Waiver.

In respect of these continuing connected transactions, the Company confirmed that it had complied with the relevant requirements set out in the Waiver and Chapter 14A of the Listing Rules.

Connected transactions *(continued)*

II. Post balance sheet date continuing connected transactions

As the conditional waiver granted by the Stock Exchange in respect of various continuing connected transactions in the year expired on 31 December 2006, the Company held an extraordinary general meeting on 27 December 2006 to seek the approval of independent shareholders of the extension for three financial years, subject to the terms of the renewed agreements, of the continuing connected transactions (with some modifications) with the above connected parties up to 31 December 2009 and of the annual caps of the the relevant extended continuing connected transactions. The renewed agreements in relation to the extended continuing connected transactions were duly signed on 27 December 2006 and were generally and unconditionally approved, confirmed and ratified by the independent shareholders. The terms and annual caps of the renewed agreements of the extended continuing connected transactions were contained in the circular to the shareholders of the Company published on 10 November 2006.

In respect of these continuing connected transactions, the Company confirmed that it had complied with the relevant requirements set out in Chapter 14A of the Listing Rules.

III. Post balance sheet date connected transactions

As mentioned in the announcement of the Company dated 7 March 2007, the Company entered into an agreement with Xianyang IRICO Electronics Shadow Mask Co., Ltd. ("IRICO Shadow Mask"), a subsidiary of the Company, of which the Company held 75% equity interest, pursuant to which the Company transferred to IRICO Shadow Mask all the equipment for shadow mask production and other related equipment held by the Company before entering into such agreement (the "Agreement"). The Agreement was effective on the date when it was signed. Please refer to the announcement of the Company dated 7 March 2007 for the relevant terms of the Agreement.

In respect of this connected transaction, the Company confirmed that it had complied with the relevant requirements set out in Chapter 14A of the Listing Rules.

Bank loans

As at 31 December 2006, details of bank loans of the Group are set out in note 21 to the financial statements.

Pre-emptive right

There are no provisions for pre-emptive rights under the Company's Articles of Association or relevant laws and regulations which could oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Subsidiaries

Details of the subsidiaries of the Company are set out in note 8 to the financial statements.

External guarantee

The Group does not have any external guarantee during the year ended 31 December 2006.

Provision for Impairment of Property, Plant and Equipment

The Board appointed an independent professional valuer to evaluate the value of the production facilities and construction in progress. A provision for impairment of property, plant and equipment of the Group amounting to approximately RMB67,205,000 was made for 2006, of which a provision for diminution of value amounting to approximately RMB61,151,000 was made for K line planned for production of super large screen high definition flat CPTs, and provisions for diminution of value for other production lines amounted to approximately RMB6,054,000.

Important Events

IRICO Display Devices Co., Ltd ("IRICO Display") is a subsidiary of the Company with its A shares listed on the Shanghai Stock Exchange, in which the Company held 236,440,000 unlisted shares, representing 56.14% of the issued share capital of IRICO Display before the implementation of the Share Reform Proposal of IRICO Display. Pursuant to the rules and regulations issued by the related authorities of the PRC, including the "The Guidelines on Share Reform Proposals of Listed Companies" and "Provisions on Management of Share Reform Proposals of Listed Companies", the Board proposed the Share Reform Proposal of IRICO Display, in which the Company agreed to offer to holder of every 10 listed A shares 3.5 to 4.2 unlisted shares to implement the Share Reform Proposal. IRICO Display completed the Share Reform Proposal in the period between 19 May 2006 and 31 July 2006, details of which were set out in the announcements dated 19 May, 2 June, 21 June and 20 July, and the circular dated 12 July 2006. Pursuant to the amended share reform plan, unlisted shareholders offered 4.2 unlisted shares in IRICO Display for every 10 listed A shares to the A shareholders of IRICO Display as of the consideration for the agreement to convert all unlisted shares into A shares of IRICO Display. After the implementation of the Revised Share Reform Proposal of IRICO Display, the Company held 180,675,565 shares in IRICO Display, representing approximately 42.9% of the issued share capital of IRICO Display, taking into account the 4,361,150 shares being the consideration shares paid by the Company on behalf of the 15 unlisted corporate shareholders. If the 15 unlisted corporate shareholders repay the 4,361,150 shares to the Company under the Revised Share Reform Proposal of IRICO Display, the Company will hold 185,036,715 shares in IRICO Display, representing approximately 43.94% of the issued share capital of IRICO Display. As the Company continues to control the majority of the Board and remain as the largest shareholder, the Company still has effective control on IRICO Display, and thus IRICO Display continues to remain as a subsidiary of the Company.

Material litigation

- ### The dispute between Xianyang Xingyun Mechanical Company Limited ("Xingyun") and the Company

On or about 19 June 2006, Xingyun brought an action against the Company in the People's High Court of Shaanxi. The Company received a notice ((2006) Shaan Min Chu Zi No. 16) from the court on 20 June 2006 requesting the Company to respond to the action and produce evidence in relation thereto.

On 28 July 2003, five Confirmation Agreements on Parts and Materials ("Confirmation Agreements") were entered into between Xingyun and the IRICO Colour Picture Tube Plant No. 1 CPT plant (彩虹彩色顯像管總廠彩管一廠) ("No. 1 CPT Plant"). According to the five Confirmation Agreements, Xingyun shall provide No. 1 CPT Plant with 5 types of parts samples including 37cm CPT model L shadow mask frame and anti-implosion band for mass pre-sale quality confirmation. In around February 2005, since the parties failed to agree on the price of bulk provision of goods upon the completion of the Confirmation Agreements, No. 1 CPT Plant notified Xingyun to suspend the provisions of parts as agreed in the Confirmation Agreements. Xingyun believes that this caused a total loss of RMB30,300,000 which was incurred from the investments in the construction of facilities and the purchase of materials.

The hearing of the case has ended. On 27th December 2006, the Company received a civil verdict ((2006) Shaan Min Er Chu Zi No. 16) from the People's High Court of Shaanxi. The court ruled that the claim by Xingyun against the Company to bear its investment loss of RMB26,340,000 and its claim against the Company to bear its production loss of RMB3,960,000 were not justified and were dismissed. The court also ruled that, according to the principle of fairness, the Company should acquire finished products, semi-finished products and raw materials held by Xingyun in the value of RMB3,880,000 according to the quantities, types and prices determined by both parties. Those finished products, semi- finished products and raw materials can still be utilized in the process of production by the Company, and therefore no loss would be incurred.

The period allowed for appeal stipulated in the civil verdict ((2006) Shaan Min Er Chu Zi No. 16) expired on 14 January 2007, and Xingyun has not filed an appeal to the People's Supreme Court of the PRC within such stipulated period.

On 11 April 2007, the Company received a writ of summons ((2007) Shaan Min Er Chu Zi No.10) from the People's High Court of Shaanxi, and was informed that Xingyun brought an action for a second time against the Company in respect of the same matter.

In the opinion of the Directors of the Group, the outcome of the above litigation will not give rise to any significant impact on the Financial Report of the Group for the year ended 31 December 2006.

Material litigation *(continued)*

- **Baystar Capital II, LP et al. v. Core-Pacific Yamaichi International (HK) Ltd. et al., Case No 05 1091 ABC (CWx) (filed in the United States District Court for the Central District of California) (the "Baystar Litigation").**

On or about 11 February 2005, BayStar Capital Management, LLC and BaystarCapital II, LP (hereinafter collectively referred to as "Baystar"), holders of the Company's H shares, commenced a litigation against Core-Pacific Yamaichi International (H.K.) Limited, et.al (hereinafter referred to as "CPYI"), one of the underwriters that offered the Company's H shares to investors in the United States pursuant to Rule 144A of the Securities Act of the USA. Baystar alleges that it entered into a strategic business development agreement with CPYI, pursuant to which CPYI acted as an investment consultant to Baystar in the greater China area. Baystar claims that CPYI breached the agreement and its fiduciary duties to Baystar. In addition, Baystar alleges that CPYI made material misrepresentations and omissions to Baystar, in violation of United States federal and state securities laws and the common law. Baystar has not commenced any action against the Company.

On or about 20 May 2005, CPYI commenced a third-party action against the Company and the lead underwriter of the Company, as part of the Baystar Litigation. CPYI seeks contractual and common law indemnification and / or contribution from the Company in the event that CPYI is found liable to Baystar.

A copy of the third-party complaint was served by Law Debenture Society on the Company on or about 11 June 2005. The Company has retained a law firm to represent the Company in the litigation. On 18 August 2005, such law firm filed a motion to dismiss the third-party complaint in its entirety. On 13 October 2005, the Court granted in part and denied in part the motion to dismiss. Thereafter, on 7 November 2005, the Company filed an answer to CPYI's claims, denying all liability.

Because no party has identified a single material misrepresentation or omission made by the Company in the offering circular, the Company filed a motion for summary judgement on 15 May 2006. On 9 August 2006 the Court partly dismissed the motion, and the discovery procedure and the expected litigation procedure continued to proceed. Pursuant to the schedule approved by the Court, the closing date of the discovery procedure was postponed to 1 December 2006. The trial by jury will start on 1 May 2007. The discovery procedure has now ended.

As there is no significant facts or evidence unfavourable to the Company, according to legal advice, the Company will file a motion for summary judgment again in the near future, expecting the litigation to end as soon as possible.

The result of the above case will not have material impact on the 2006 financial statements of the Group.

Code on Corporate Governance Practices

The Board has reviewed the documents regarding the Company's adoption of relevant corporate governance, and is of the opinion that they have met the principles and code provisions set out in the Code on Corporate Governance Practices (the "Code") in the Listing Rules.

The Directors are not aware of any information that would reasonably reflect the non-compliance of the Company or any of the Directors with the Code. The Board considers that the Company has fully complied with the principles and code provisions set out in the Code.

Model Code

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors, the Company has confirmed that all Directors have complied with the requirements set out in the Model Code.

Public float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, the Directors believe that the relevant minimum percentage applicable to listed securities was maintained throughout the reporting period.

Auditors

The financial statements of the Company have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

The Company has not changed the auditors in the past three financial years.

By order of the Board
Xing Daoqin
Chairman

Xianyang, the PRC
12 April 2007

Report of the Supervisory Committee

In 2006, in compliance with the Company Law of the People's Republic of China ("Company Law") and the Articles of Association of the Company, all members of the Supervisory Committee have complied with the principle of integrity, responsible to all shareholders and sincerely performed the duties of Supervisor to protect the interests of the shareholders. They supervised the operation and financial status of the Company and the performance of duties by the senior management in 2006. I hereby present the report of 2006 as follows:

In 2006, pursuant to the requirement of the Articles of Association, the Supervisory Committee reviewed financial reports regularly. In 2006, the Supervisory Committee held meetings to consider and pass the report of the 2005 Supervisory Committee and fully review the audited 2005 financial report of the Company. The convening of the meetings was in compliance with the relevant requirements of the Company Law and the Articles of the Company.

In 2006, the Supervisors of the Company attended all Board meetings and general meetings of the shareholders.

Pursuant to laws and regulations of Hong Kong, the Supervisory Committee performed serious supervision and examination on the procedure of Board meetings, resolutions, the execution by the Board of the resolutions passed in general meetings, the performance of duties by the senior management and the internal control system of the Company and its thorough execution

The Supervisory Committee considered that the Directors and senior management of the Company operated strictly in compliance with the Company Law and Securities Law of the PRC, the Articles of Association of the Company and other relevant regulations and rules of Hong Kong. The Committee members performed their duties with integrity and diligence, and executed various resolutions and authorization passed in general meetings, to ensure that the operation of various businesses complies with the requirements of laws and regulations. Through the establishment of a series of rules, the Company further improved the corporate legal structure and the internal management system and established and improved the internal control system. In the process of the examination of the financial status of the Company and the supervision of the performance of the duties of the Directors and senior management of the Company, the Supervisory Committee did not find any behaviour in prejudice to the interest of the shareholders and the Company, nor any behaviour in contravention to laws and regulations, the Articles of Association of the Company and various rules and systems.

The Supervisory Committee is confident in the prospect of the Company and will proceed to carry out effective supervision on the operation of the Company to safeguard the interests of the shareholders and the Company as a whole.

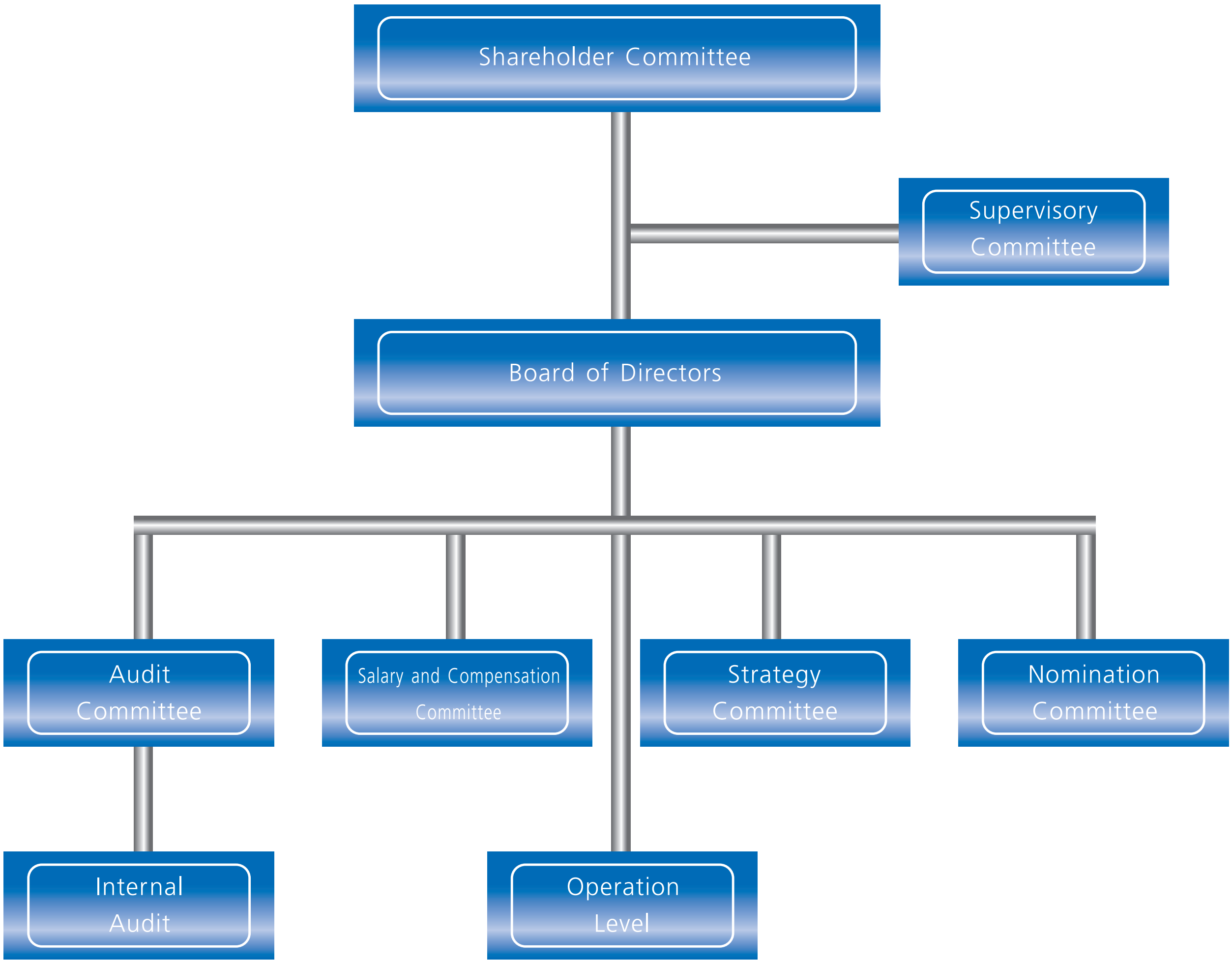
By order of the Supervisory Committee
Fu Jiuquan
Chairman of the Supervisory Committee

Xianyang, the PRC
12 April 2007

Corporate Governance Report

The Company is committed to establish a mechanism of governance with order, high efficiency and transparency to constantly improve its corporate governance, the Board believe that through the adoption of high level corporate governance and its serious implementation, the accountability and transparency of the Company can be enhanced and the Company can strike a balance amongst the interests of the interested parties of the public, shareholders, customers, employees and investment partners of the Company, so as to maximize the interests of the shareholders.

The overall governance structure of the Company



Corporate Governance Report (Continued)

1. Corporate Governance Practices

Improvement of the internal control system was made by reviewing the Code with effect from 1 January 2005 to cater for the constant development and evolvement of corporate governance.

The Code sets out the principles of good corporate governance and two levels of recommendation, namely, Code Provisions, with which issuers are expected to comply or to give considered reasons for any deviation; and Recommended Best Practices, which are for guidance only, save that issuers are encouraged to comply with. The Board has reviewed the Company's corporate governance practices. For the year ended 31 December 2006, the Company has adopted all the principles and Code Provisions and nearly all the Recommended Best Practices set out in the Code.

The Company's corporate governance framework incorporates all the Code Provisions and nearlly all the Recommended Best Practices in the Code. The Company's code on corporate governance practices includes, without limitation to, the Articles of Association passed at the shareholders' general meeting on 9 September 2004 and Work Rules for the Board, Organisation Rules for the Audit Committee, the Articles of the Nomination Committee, Organisation Rules for the Strategic Committee and Organisation Rules for the Remuneration Committee passed on 25 August 2005. All the documents mentioned above are set out on the Company's website. The Board also formulated Management Methods for Information Disclosure, Management Mechanism for Investor Relations and Management Mechanism for Implementation of Resolutions of the Board as relevant work rules of the Company.

The Company's code on corporate governance practices exceeds the requirements of the Stock Exchange and is more strict than the Code Provisions set out in the Code in many aspects, which mainly include the following:

- Apart from the Audit Committee and the Remuneration Committee, the Board has two other governance committees, namely, the Nomination Committee and the Strategic Committee.

- Apart from one Non-Executive director, all other members of the Audit Committee are Independent Non-Executive Directors.

- Each year, the President submits the Work Report to the Board, personally reporting the details of the management and their subordinates' compliance with the Company's internal control system, regulations and work process.

2. The Board

Duties of the Board:

The Board is responsible for providing leadership and monitoring the Company's affairs. All directors are liable to act in the best interests of the Company and collectively assume the responsibility for overseeing and monitoring the Company's affairs. The Board makes regular assessment on the management's business prospects and results as well as exercises other power in accordance with the Articles of Association, which mainly includes:

- To oversee the implementation of resolutions passed at shareholders' general meetings;
- To approve the Company's business plans and investment schemes;
- To formulate the Company's annual financial budget schemes;
- To formulate the Company's profit distribution plan;
- To formulate the Company's basic management system;
- To approve the Company's accounting policies and adjustment to the same;
- To approve various announcements including financial statements.

2. The Board *(continued)*

Constitution:

At 31 December 2006 the Board was composed of 12 Directors, including 5 Executive Directors, 5 Independent Non-executive Directors and 2 Non-executive Directors. All directors must retire at the third annual general meeting after being appointed and are then eligible for re-election. Newly appointed Directors are subject to election at the first general meeting after being appointed. The personal information of the Directors are set out in the section headed Profile of the Directors, Supervisors and Senior Management on pages 23 to 29 of this report. The same information is also set out in the website of the Company.

Directors are elected in general meetings with a term of three years from the date of their elections until the expiry of their terms.

Executive Director	Xing Daoqin	Chairman
	Tao Kui	Vice Chairman
	Guo Mengquan	President
	Zhang Shaowen	
	Niu Xinan	
Non-executive Director	Zhang Xingxi	Member of the Audit Committee
	Yun Dah Jiunn	
Independent Non-executive director	Feng Fei	Member of the Audit Committee
	Xu Xinzhong	Member of the Audit Committee
	Feng Bing	Member of the Audit Committee
	Wang Jialu	
	Zha Jianqiu	Member of the Audit Committee

Note: Yun Dah Jiunn was re-designated from an Executive Director to a Non-executive Director on 27 December 2006.

2. The Board *(continued)*

Constitution: *(continued)*

All directors shall, upon their initial appointment, report to the Board in respect of the number and nature of any office assumed by them in other companies or institutions and the term of office, as well as disclose to the Company names of such companies or institutions. If the Board considers a director has a conflict interest in any proposal under consideration, such director shall report his/her interests and abstain from voting and may, when necessary, apply for absence. The Board requires directors to confirm whether there is any connected transaction between the Directors or their respective associates and the Company or its subsidiaries at each financial reporting period. Any material transactions relating to connected parties, which have been confirmed, will be disclosed in notes to the financial statements of an annual report.

The Independent Non-executive Directors of the Company possess wide professional expertise and experience, and can fully perform their important function of supervision and balance to protect the interests of the shareholders and the Company as a whole. Five out of the seven Non-executive Directors (over one-third) are Independent Non-executive Directors. In determining the independence of a Non-executive Director, the Director is considered independent only after the Broad have confirmed that there is not any direct or indirect material relationship between the Director and the Company. A Director is considered not independent after he/she has been a Director over nine years. The Board considers that the Independent Non-executive Directors are able to make independent judgment effectively and satisfy the guideline on assessing independence set out in Rule 3.13 of the Listing Rules.

The Company complies with the requirement concerning the appointment of sufficient Independent Non-executive Directors and that at least one of them should possess appropriate professional qualification or accounting or relevant financial expertise set out Rule 3.10(1) and 3.10(2).

The Company has made appropriate arrangement to insure against the possible legal action that the Directors and senior management may be involved. The Board reviews annually on the insurance arrangement.

2. The Board *(continued)*

The Chairman and the Chief Executive:

The Chairman is responsible for operation and management of the Board while the Chief Executive takes charge of the day-to-day management of the Company's business. To ensure a balanced distribution of functions and authorisations, roles of the Chairman and the Chief Executive are explicitly differentiated. The Chairman is taken up by Xing Daoqin and the Chief Executive is taken up by Guo Mengquan. Under the assistance of the Vice Chairman, the Chairman leads and oversees the operation of the Board to ensure the Board's performance being in the best interests of the Company.

Under the assistance of the Vice Chief Executive, the Chief Executive is responsible for managing the day-to-day affairs of the Company, organising and implementing resolutions of the Board and reporting to the Board on the Company's overall operation. As the chief manager of the Company's day-to-day affairs, the Chief Executive is responsible for the annual business plan and investment schemes and formulation of the Company's basic management rules. He/She also takes the direct responsibility for the Company's operation.

The Chief Executive, the Vice Chief Executive and the Chief Financial Controller make concerted efforts to collaborate with administrative departments of the Company to ensure the Board's and the Board committees' access to complete, reliable and proper information so that the Directors can make decisions with adequate information and to ensure proper implementation of the Board's resolutions. The Chief Executive monitors the Company's operation and financial results with a view to plans and budget and passes on their opinions to the Board on material events.

2. The Board *(continued)*

Joint Company Secretary:

The Joint Company Secretary reports to the Board. All directors are entitled to the Joint Company Secretary's services. He / She shall notify the Board the latest information on governance and oversight on a regular basis, assist the Chairman of the Board in preparation of the agenda, and prepare and despatch meeting documents on a timely and comprehensive basis so as to ensure the efficiency and validity of the Board meetings. Under the assist of the Company's lawyer, the Joint Company Secretary is in charge of announcement of annual and interim reports and information disclosure in accordance with the Listing Rules and relevant rules of the Company. He / She makes a regular enquiry to the Company's financial department for information on connected transactions to secure the compliance with Listing Rules in respect of such transactions.

The Joint Company Secretary is also in charge of preparing and keeping minutes of meetings of the Board and the Board committees together with any relevant documents, which will be provided and disclosed to all directors for their inspection at any reasonable time. All matters under consideration including any enquiry and objection by directors shall be minuted in details. In proper time upon close of a meeting, a minute draft shall be despatched to all directors for their modification opinions.

Board meetings

The Chairman is responsible for approving agenda of each Board meeting and effectually convenes the Board meeting, taking into consideration, where appropriate, other matters proposed by directors for inclusion in the agenda. Assisted by the Company Secretary, the Chairman seeks to ensure all directors' proper access to accurate, timely and sufficient information on the proposals to be considered by the Board to enable their wise decisions. While a ten days' notice of a regular Board meeting is given, the agenda and the meeting documents attached are circulated at least 3 days prior to the holding of a Board meeting or a meeting of any special committee.

The Chairman encourages the Directors to be fully engaged in the Board's affairs and make contributions to the Board's function. In addition to regular Board meetings, the Chairman and Non-executive Directors hold at least one meeting without Executive Directors' presence each year. During the year under review, such meeting was convened once. The Board adopts sound corporate governance practices and procedures and takes appropriate steps to inspire the Directors' open and frank communication so as to ensure Non-executive Directors' enquires to each Executive Director and the effective communication between them.

2. The Board *(continued)*

Board meetings *(continued)*

It is expressly provided in the Work Rules for the Board of Directors that, in the event that a substantial shareholder or director of the Company has a conflict of interests in the matter to be considered at the Board meeting, such matter shall not be dealt with by Board committees or by way of circulation. Any director who has a conflict of interests in the matters to be considered shall abstain from voting.

Four Board meetings are held in 2006, with an average attendence of approximately 85%. The details of attendance at Board meetings are as follows:

Directors	**Board meeting** (times of attendance / times of meetings held)
Executive Directors	
Xing Daoqin	4/4
Tao Kui	4/4
Guo Mengquan	4/4
Zhang Shaowen	2/4
Niu Xinan	4/4
Non-executive Director	
Zhang Xingxi	4/4
Yun Dah Jiunn	3/4
Independent Non-executive Director	
Feng Fei	3/4
Xu Xinzhong	4/4
Feng Bing	2/4
Wang Jialu	3/4
Zha Jianqiu	4/4

In accordance with the Articles of Association, directors, when necessary, may propose to convene an extraordinary Board meeting. They may also, when they consider necessary, obtain the Company's information and independent expert opinion, where expenses incurred are borne by the Company.

2. The Board *(continued)*

Board committees:

In order to ensure good corporate governance, four specialized committees are established under the Board, namely the Strategic Committee, the Audit Committee, the Nomination Committee and the Remuneration Committee. Their terms of reference are determined in accordance with the principles set out in the Code. The Board committees report to the Board. In order to perform their duties, the Board committees have the authority to appoint to lawyers, investment bank, accountants or other professionals to provide professional advice if necessary, the expenses of which are borne by the Company.

Nomination Committee

The Nomination Committee is chaired by Mr. Xing Daoqin. The committee members include Mr. Tao Kui, Mr. Guo Mengquan, Mr. Feng Bing, Mr. Feng Fei, Mr. Xu Xinzhong and Mr. Wang Jialu. The committee provides the Board with its advice on appointment of directors, assessment of the Board's composition and re-election of the Board in accordance with certain agreed standards. The relevant standards include a director's proper professional knowledge and experience in the industry, personal integrity and commitment of adequate time. The Nomination Committee is responsible for choosing and recommendation of director candidates, including consideration of recommendations by others and, when necessary, making use of public recruitment.

By reference to the Recommendation A.4 of the Code, the Board formulated the Organisation Rules of the Nomination Committee, specifying the terms of reference of the Nomination Committee. The Organisation Rules of the Nomination Committee is set out on the Company's web-page: http://www.irico.com.cn/cn/investor/guicheng.htm.

In 2006, the Nomination Committee held one meeting to discuss mainly on the confirmation of the person selected for the position of chief financial controller.

2. The Board *(continued)*

Nomination Committee *(continued)*

The attendance details are as follows:

Directors	**Meetings of Nomination Committee** (times of attendance / times of meetings held)
Executive Directors	
Xing Daoqin	1/1
Tao Kui	1/1
Guo Mengquan	1/1
Independent Non-executive Director	
Feng Fei	0/1
Xu Xinzhong	1/1
Feng Bing	1/1
Wang Jialu	1/1

Audit Committee

The Audit Committee assumes the responsibilities for audit of the Company's financial reports, review of internal control and corporate governance work and provision of relevant advice to the Board. Independent Non-executive Directors represent four fifths of the members of the Audit Committee. The Audit Committee is chaired by Mr. Zha Jiangiu, an Independent Non-executive Director. Mr. Zha has proper qualifications and financial experience.

By reference to the recommendations in A Guide for Effective Audit Committees issued by Hong Kong Institute of Certified Accountants and C.3 of the Code, the Board has formulated the Organisation Rules of the Audit Committee, stipulating the terms of reference of the Audit Committee, which is set out on the Company's web-page: http://www.irico.com.cn/cn/investor/guicheng.htm

2. The Board *(continued)*

Audit Committee *(continued)*

In 2006, the Audit Committee convened two meetings with an average attendance rate of 90%. The senior management and external auditors were invited to these meetings. In 2006, the Audit Committee

- audited the Company's accounts and interim results announcement for thesix months ended 30 June 2006, together with the proposals to be approved by the Board;

- audited the Report of the Board of Directors, accounts and the annual results announcement of the Company for the year ended 31 December 2006, together with the proposals to be approved by the Board;

- audited the audit fees and remuneration payable to the external auditors for the year ended 31 December 2006, together with the proposals for the auditors' re-appointment to be approved by the Board;

- audited the Company's implementation of connected transactions in 2006, together with the proposals to be approved by the Board;

- reviewed matters in relation to audit, internal control and financial policies with the senior management and external auditors of the Company.

2. The Board *(continued)*

Audit Committee *(continued)*

The attendance details are as follows:

Directors	**Meetings of Audit Committee** (times of attendance / times of meetings held)
Non-executive Directors	
Zhang Xingxi	2/2
Independent Non-executive Director	
Feng Fei	2/2
Xu Xinzhong	2/2
Feng Bing	1/2
Zha Jianqiu	2/2

Remuneration Committee

The Remuneration Committee is chaired by Mr. Tao Kui. The committee members include Mr. Zhang Shaowen, Mr. Feng Fei, Mr. Wang Jialu and Mr. Zha Jianqiu. The Remuneration Committee is responsible for approval of remuneration policies for all directors and senior management members, including yearly distribution of share appreciation rights pursuant to the Company's share appreciation rights plan. Each year, the committee reviews the current remuneration policy and proposes to the Board to change the remuneration policy and system. It also assists the Company to formulate fair and transparent remuneration policies for directors and senior management and determination of their remunerations. The terms of reference of the Remuneration Committee has been approved by the Board and set out on the Company's web-page: http://www.irico.com.cn/_info/cn/news_txt_270.htm

During the year, the Remuneration Committee conducted several informal discussion on the remuneration-related affairs and conducted a written resolution on 21 July 2006. All members of the Remuneration Committee issued their written advice and the Directors' and senior management's share appreciation rights plan was passed.

2. The Board *(continued)*

Remuneration Committee *(continued)*

Remuneration policy for Executive Directors: The duties of the Remuneration Committee include the formulation of the remuneration policy of the Executive Directors and the evaluation of their performance and the approval of the terms of their service contracts. The remuneration portfolio policy for Executive Directors is designed to link Executive Directors' remunerations with their performance and the Company's commissions to inspire their performance and re-election. In accordance with the Articles of Association, directors may not determine or approve their own remunerations.

The five Executive Directors of the Company are the functionaries who fall within the management of the state-owned Asset Supervision and Administration of the State Council, and hence are subject to Provisional Management Methods for Remunerations of Enterprise Representatives and Provisional Assessment Methods for Appraisal of Operating Results of Enterprise Representatives issued in 2004. These five directors' remunerations consist of basic salary, performance-linked salary and long-term incentive-linked salary. The basic salary is the annual basic income of a functionary, which is determined by reference to the business scale of the enterprise, responsibilities, and the average salary of local enterprises, the industry and the enterprise itself. The performance-basic salary is linked with the operating results appraisal and based on the performance-linked salary, which is determined by reference to the appraisal grade and scores for the annual operating results of the enterprise representative. After the appraisal results are obtained, 60% of the performance-linked salary is paid while the payment of the remaining 40% will be deferred to the second year of re-election or resignation.

Based on their individual performance and the Company's operating status, the Remuneration Committee approved the share appreciation rights to be granted to the Executive Directors pursuant to the share appreciation rights plan as approved by shareholders.

Remuneration policy for Non-executive Directors: Remunerations of Non-executive Directors are subject to approval by the Company's shareholders' general meeting and determined after taking into consideration of the complexity of the matters to be handled by them and their duties. Pursuant to the service contract entered into between the Company and the Non-executive Directors, the Company pays Non-executive Directors the out-of-pocket expenses incurred in performance of their duties (including attendance at the Company's meetings).

2. The Board *(continued)*

Remuneration Committee *(continued)*

A director's remuneration includes the amount paid by the Company and its subsidiaries for their management of affairs of the Company and its subsidiaries. Remunerations paid to each director of the Company in 2006 are as follows:

Name	Position	Currency	Remuneration and allowance	2006 Director's fee	Retirement benefits contribution	Remark
Xing Daoqin	Executive Director	RMB	226,630.00		9,346.86	
Tao Kui	Executive Director	RMB	239,032.40		9,346.86	
Guo Mengquan	Executive Director	RMB	210,291.50		9,346.86	
Zhang Shaowen	Executive Director	RMB	207,413.20		9,346.86	
Niu Xinan	Executive Director	RMB	203,189.70		9,346.86	Not received remuneration from the Company
Zhang Xingxi	Non-executive Director	RMB	320,199.00		16,800	Not received remuneration from the Company
Yun Dah Jiunn	Non-executive Director	HKD	810,000.00		—	
Feng Fei	Independent Director	RMB		100,000	—	
Xu Xinzhong	Independent Director	RMB		100,000	—	
Feng Bing	Independent Director	RMB		100,000	—	
Wang Jialu	Independent Director	RMB		100,000	—	
Zha Jianqiu	Independent Director	RMB		100,000	—	
Sub-total		RMB	1,406,755.80	500,000.00	63,534.30	
		HKD	810,000.00			

Pursuant to applicable regulations of the PRC, the Company currently participates in a series of pension schemes organized by the provincial and municipal governments, pursuant to which all production plants of Company must contribute to such pension schemes according to certain proportions of the salaries, bonus and various allowance of the employees. As the production plants are located in different regions, the proportion of the contributions to the remuneration of the employees are also different.

3. Statement of financial responsibility of the Board

The Board prepares the Company's financial statements and takes the responsibility for the completeness and legitimacy of the financial statements as well as the efficiency of the Company's internal control system and risk management process. The Chief Executive is responsible of the daily management of the operation of the Company. The Board makes periodic reviews on the functions of and the rights authorised to the Chief Executive to ensure such arrangements are proper and in compliance with the Articles of Association.

The Directors confirmed their responsibility to prepare financial statements for the Company for each financial year, to report truly and fairly on the financial status of the Group, and to comply with applicable accounting standards and adopt appropriate accounting policies in the preparation of the financial statements. The Directors is responsible for the safe-keeping of the accounts of the Company which disclose the financial status of the Company in reasonable accuracy and assist the Company in preparing financial statements in accordance with laws, regulations and applicable accounting standards.

4. Securities transactions by Directors

The Board has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by directors of the Company. The Modal Code is also applicable to special employees who may have certain price sensitive information that has been not disclosed, including such employees in the Company's subsidiaries and parent company. Upon appointment, any director of the Company is delivered a Model Code. After that, the Model Code is delivered twice a year, namely, one month prior to the Board meeting to approve the Company's interim results and one month prior to the Board meeting to approve the Company's annual results, together with an indicative notice to remind the Directors that they may not deal in the Company's shares until the results announcement.

All directors of the Company confirm that as at 31 December 2006, all directors and the special employees who may have certain price sensitive information that has been not disclosed complied with the Model Code and none of the said persons has interests or short positions which are required to notify the Company and the Stock Exchange, or incur any conduct in violation of regulations.

5. Control mechanism

Internal control and internal audit

Internal control system

The Board is fully in charge of the Group's internal control system. It is responsible for ensuring the Company has adequate internal control systems to monitor its overall financial status, hence avoiding material financial omission or loss. Through its Audit Committee, the Board makes periodic review on the effectiveness of the internal control system. In 2006 the Company reviewed the efficiency of the internal control system, which includes control over finance, operation, regulation compliance and risk management. Relevant results have been reported to the Board through executive directors.

The Company's internal control system plays a key role in risk management which is crucial for the achievement of business objectives. The internal control system and work process is formulated to prevent unauthorised use or disposal of the Company's assets and to ensure the keeping of true and adequate accounting records and relating financial information. While the internal control procedures are designed to manage and properly control, but not remove, the risks of failing to achieve business prospects. The Company's internal control provides reasonable, but not absolute, assurance against material mis-statement or loss.

The Board confirms that the Company has set up procedures and systems for recognising, assessing and managing material operating risks with support from Board committees and the senior management. Based on the evaluations made by the senior management, the internal audit department of the Company and independent auditors in 2006 and as at the date of approval of this annual report, the Audit Committee believes that the Company's internal control system and accounting system are aimed to enable the security of material assets, the recognition and monitoring of the Company's operating risks, the execution of material transactions under the management's authorisation and the reliable disclosure of financial statements; and that the established control system is functioning constantly to identify, evaluate and manage the material risks faced by the Company.

5. Control mechanism *(continued)*

Internal control and internal audit *(continued)*

Internal audit

The Company sets up an internal audit department, which oversees the Company's internal governance and conducts independent reviews as to whether the internal control system is adequate and efficient. The audit department is led by the department manager and composed of 9 professionals including internal auditors. Main duties of the internal audit department include:

- To oversee the Company's all operating activities and internal control on a regular basis;
- Together with other business departments of the Company, to carry out periodic audit on the financial status, income and expenses, operations, work process, and fraud investigations of all business units, branches and subsidiaries of the Company;
- To carry out special audit on matters to which the Board or the management attaches special attention.

In 2006 the internal audit department of the Company enhanced its effort in internal audit. The audit department has good discussion and communication with members of the audit department concerning audit programmes and internal audit to ensure sufficient causal relationship between audit and risk control beforehand, and adopted various measures to ensure the effectiveness of internal audit:

- collected and assessed information on risk control of the Group;
- prepared audit systems and solutions in response to specific cases of risks;
- supervised the whole process of audit and improve the relevant measures of internal control.

The internal audit department gives its prudent opinion as to whether the Company's operations have a complete and efficient risk management system, and reports it to the Chairman or directly contacts the head of the Audit Committee. All internal audit reports and opinions are submitted to the Chief Executive, the Chief Financial Controller and other Executive Directors of the Company as well as the senior management of the department being audited. The audit department also follows up on all reports to ensure that all issues have been satisfactorily resolved. In addition, a regular dialogue is maintained between the audit department and the external auditors so that both are aware of the significant factors that may affect their respective scope of work.

The Company has set up a detailed oversight system for handling the price sensitive information for all employees' reference.

5. Control mechanism *(continued)*

Internal control and internal audit *(continued)*

Risk management

One of the Board's responsibilities is to raise the risk awareness across the Company's business operations. The Board properly implements the operating risk management procedure throughout the Company and formulates policies and procedures which provide a framework for identification and management of risks. The Board fulfils its oversight role over the Company and its subsidiaries in the following areas:

- establishment of the risk management system of the Company;
- identification, assessment and management of the material risks faced by various units of the Company;
- review and assessment of the adequacy of the Company's risk management process, system and internal control;
- review and monitoring of compliance with the Company's risk management process, system and internal control including compliance with prudential and legal requirements governing the business of the Company.

The risk management activities include review of detailed financial and operation reports, budgets and business plans provided by the management, review by the Board of actual results against the budgets, ongoing work of the Group's internal audit function and regular business reviews by Executive Directors and the executive management teams of each core business divisions. While the said procedures are designed to identify and manage the risks which may impose adverse impact on realisation of the Group's business prospects, they do not provide absolute assurance against any material mis-statement or loss.

The Board is fully in charge of overseeing the operation of Company's business units. Personnel with proper experience and skills are appointed to the boards of directors of the Company's subsidiaries and associated companies to attend their Board meetings and to oversee the operations of those companies. Monitoring activities include review and approval of business strategies, budgets and plans as well as setting of key business performance targets. The identification, evaluation and report on the likelihood and potential financial impact of material business risks are left to the management of such companies.

Executive Directors hold monthly meetings with executive and business senior management members to review the integrated financial status and operations against the budgets and estimation and to estimate and evaluate risk factors so as to formulate and adjust business strategies.

5. Control mechanism *(continued)*

Internal control and internal audit *(continued)*

External auditors and their remuneration

The Audit Committee reviewed the letter from PricewaterhouseCoopers to confirm its independence and objectiveness, held meetings with the firm to discuss the audit scope and fees, and approved scope and fees for any non-audit service provided by the firm .

For the year ended 31 December 2006, remuneration payable by the Company to the external auditors amounted to RMB4,182,500, all of which was for audit service. No non-audit service fee was incurred for the year. The audit fee has been approved by the Audit Committee and the Board.

Interests of shareholders and investor relations

General meeting

The Company encourages shareholders' attendance at shareholders' general meetings and gives at least a 45 days' notice of such meetings. The Chairman and Directors attend the meetings to answer questions about the Company's businesses. All shareholders have rights to request the convening of an extraordinary general meeting and put forward proposals for shareholders' consideration in accordance with the Articles of Association. At the annual general meeting, each matter is put forward in form of a separate proposal and voted by way of poll based on the number of shares. Voting results of the annual general meeting are released in form of announcements and set out on the Company's website.

5. Control mechanism *(continued)*

Interests of shareholders and investor relations *(continued)*

General meeting *(continued)*

On 29 June 2006, the 2005 Annual General Meeting was held at the conference room on the 1st floor of the office building of the Company in Xianyang, Shaanxi Province, in which eight ordinary resolutions were passed to consider and approve the Report of the Directors of the Company for 2005, to consider and approve the Report of the Supervisory Committee for 2005, to consider and approve the audited financial report of the Company for the year ended 31 December 2005, to consider and approve the profit distribution proposal of the Company for 2005 (Note), to approve the resignation of Mr. Niu Xinan as a Supervisor of the First Session of the Supervisory Committee and the appointment of Mr. Niu Xinan as an Executive Director of the First Session of the Board with a term of office commencing from the date when his appointment took effect until the end of the term of the First Session of the Board, to approve the appointment of Mr. Zhang Zhankui as a Supervisor of the First Session of the Supervisory Committee with a term of office commencing from the date when his appointment took effect until the end of the term of the First Session of the Supervisory Committee, to consider and approve the reappointment of PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd. and PricewaterhouseCoopers, Certified Public Accountants, as the Company's PRC auditors and international auditors, respectively, for the 2006 financial year, and to authorise the Board to determine their remuneration, and to authorise the Board to determine the distribution of the interim profit for 2006.

On 27 December 2006, an extraordinary general meeting was held at the conference room on the 1st floor of the office building of the Company in Xianyang, Shaanxi Province mainly to consider and approve the application caps of the continuous connected transactions of the Company in the three consecutive financial years of 2007 to 2009.

The Company Secretary and financial directors are responsible for day-to-day contacts between the Board and substantial shareholders. Investors and the public may access the Company's website for detailed information on the Company's businesses. The Company's interim and annual results announcements can also be downloaded there.

According to the information available to the Company and as far as the Directors are aware, at least 25% of the Company's total issued share capital is held by public shareholders.

5. Control mechanism *(continued)*

Information disclosure and investor relations

The Company formulated and implemented the Management Methods on Information Disclosure and the Rules for Investor Relations Management, aiming to further standardise its information disclosure system to ensure the accuracy, completeness and timeliness of information disclosure and to provide investors with high-quality services. The Board Office, with the Company Secretary as its head, formulates the procedures for gathering, verification and reporting of internal operating data and other information as well as the procedures for preparation and review of periodic reporting.

The Company undertakes that it shall make impartial disclosure and full and transparent reporting.The ultimate duty of the Chairman is to ensure efficient communication with the investors and the Board's understanding of the opinions of substantial shareholders. After the Company's annoucenment of its interim and annual results, the Board is committed to provide shareholders with clear and comprehensive results information of the Group by publishing interim and annual reports. The senior management shall preside over presentations and attend the meetings with institute investors and financial analysts for intercommunication in respect of the Company's results and business prospects, which is a regular function of investor relations. In addition, the Company arranges for roadshow for analysts and investors, from time to time, to foster intercommunication and understanding between the investors and the management of the Company. Field visits by analysts and investors are welcomed for inspecting plants and business premises of the Company. In 2006, the Company and investors and/or analysts held 7 meetings and 2 roadshows in Hong Kong.

The Company is committed to increase transparency and improve investor relations and has attached much importance to shareholders' responses to this regard. For any inquiry and advice, shareholders can contact the Company Secretary through the hotline (+86 29 3333 3858) or by email zcn@ch.com.cn or raise the questions at the annual general meeting or the extraordinary general meeting. Inquiry can also be made through the above means to the Company Secretary for procedures concerning convening an annual general meeting or extraordinary general meeting and putting forward a proposal.

By order of the Board
Joint Company Secretaries
Zhang Chunning
Lam ChunLung

Xianyang, Shaanxi
12 April 2007

INDEPENDENT AUDITOR'S REPORT

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central Hong Kong

TO THE SHAREHOLDERS OF
IRICO GROUP ELECTRONICS COMPANY LIMITED
(A joint stock company incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of IRICO Group Electronics Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 68 to 140, which comprise the consolidated and Company balance sheets as at 31st December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The Directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

INDEPENDENT AUDITOR'S REPORT

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 12th April 2007

Consolidated Balance Sheet

As at 31st December 2006
(All amounts in thousands of RMB unless otherwise stated)

	Note	**2006**	2005
ASSETS			
Non-current assets			
Property, plant and equipment	5	**2,497,428**	2,921,436
Leasehold land and land use rights	6	**36,941**	37,911
Intangible assets	7	**11,615**	13,990
Interests in associates	9	**232,220**	17,339
Available-for-sale financial assets	10	**24,060**	24,060
		2,802,264	3,014,736
Current assets			
Inventories	11	**631,915**	671,783
Trade receivables	12	**1,512,292**	1,474,437
Other receivables, deposits and prepayments		**65,083**	46,632
Cash and bank balances	13	**479,503**	587,838
		2,688,793	2,780,690
Total assets		**5,491,057**	5,795,426
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital	14	**1,941,174**	1,941,174
Other reserves	15	**766,146**	944,402
Accumulated losses		**(526,422)**	(655,934)
		2,180,898	2,229,642
Minority interests		**1,035,713**	830,984
Total equity		**3,216,611**	3,060,626

Consolidated Balance Sheet

As at 31st December 2006

(All amounts in thousands of RMB unless otherwise stated)

	Note	**2006**	2005
LIABILITIES			
Non-current liabilities			
Deferred income	16	**4,344**	7,819
Deferred income tax liabilities	17	**15,577**	15,698
Long-term payables	18	**10,572**	13,879
		30,493	37,396
Current liabilities			
Trade payables	19	**575,718**	694,147
Other payables and accruals	20	**726,511**	726,759
Current income tax liabilities		**6,701**	11,695
Current portion of long-term payables	18	**2,347**	4,626
Short-term bank borrowings	21	**932,676**	1,260,177
		2,243,953	2,697,404
Total liabilities		**2,274,446**	2,734,800
Total equity and liabilities		**5,491,057**	5,795,426
Net current assets		**444,840**	83,286
Total assets less current liabilities		**3,247,104**	3,098,022

The notes on pages 75 to 140 are an integral part of these financial statements

Xing Daoqin	**Guo Mengquan**
Chairman	*Director*

Balance Sheet

As at 31st December 2006

(All amounts in thousands of RMB unless otherwise stated)

	Note	**2006**	2005
ASSETS			
Non-current assets			
Property, plant and equipment	5	**1,223,420**	1,427,234
Intangible assets	7	**9,402**	10,472
Investments in subsidiaries	8(a)	**1,102,227**	1,352,316
Interests in an associate	9	**250,000**	—
		2,585,049	2,790,022
Current assets			
Inventories	11	**315,765**	371,683
Trade receivables	12	**585,872**	659,561
Other receivables, deposits and prepayments		**42,742**	19,765
Loan to a subsidiary	8(b)	**40,000**	50,000
Cash and bank balances	13	**221,729**	186,555
		1,206,108	1,287,564
Total assets		**3,791,157**	4,077,586
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital	14	**1,941,174**	1,941,174
Other reserves	15	**986,153**	986,153
Accumulated losses		**(689,740)**	(679,784)
Total equity		**2,237,587**	2,247,543

Balance Sheet

As at 31st December 2006

(All amounts in thousands of RMB unless otherwise stated)

	Note	2006	2005
LIABILITIES			
Non-current liabilities			
Deferred income	16	**534**	961
Deferred income tax liabilities	17	**6,117**	3,614
Long-term payables	18	**9,065**	10,016
		15,716	14,591
Current liabilities			
Trade payables	19	**377,258**	481,270
Other payables and accruals	20	**595,930**	595,238
Current portion of long-term payables	18	**962**	3,339
Short-term bank borrowings	21	**563,704**	735,605
		1,537,854	1,815,452
Total liabilities		**1,553,570**	1,830,043
Total equity and liabilities		**3,791,157**	4,077,586
Net current liabilities		**(331,746)**	(527,888)
Total assets less current liabilities		**2,253,303**	2,262,134

The notes on pages 75 to 140 are an integral part of these financial statements

Xing Daoqin
Chairman

Guo Mengquan
Director

Consolidated Income Statement

For the year ended 31st December 2006
(All amounts in thousands of RMB unless otherwise stated)

	Note	**2006**	2005
Turnover	22	**3,861,710**	3,927,500
Cost of sales (including provision for impairment loss on property, plant and equipment of RMB67,205,000 (2005: RMB567,659,000))		**(3,356,160)**	(4,357,371)
Gross profit/(loss)		**505,550**	(429,871)
Other revenue	23	**19,498**	37,603
Other net income	23	**155,126**	21,295
Selling and marketing costs		**(150,343)**	(152,565)
Administrative expenses		**(241,113)**	(278,875)
Other operating expenses		**(38,381)**	(36,968)
Operating profit/(loss)	24	**250,337**	(839,381)
Finance costs	26	**(61,849)**	(70,096)
Share of profits less losses of associates	9	**(945)**	(2,479)
Profit/(loss) before income tax		**187,543**	(911,956)
Income tax expense	27	**(19,828)**	(48,377)
Profit/(loss) for the year		**167,715**	(960,333)
Attributable to:			
Shareholders of the Company	28	**129,512**	(754,547)
Minority interests		**38,203**	(205,786)
		167,715	(960,333)
Earnings/(loss) per share for profit/(loss) attributable to the shareholders of the Company during the year (expressed in RMB per share) — basic	29	**0.07**	(0.39)
Dividend	30	**—**	58,261

The notes on pages 75 to 140 are an integral part of these financial statements

Xing Daoqin
Chairman

Guo Mengquan
Director

Consolidated Statement of Changes In Equity

For the year ended 31st December 2006
(All amounts in thousands of RMB unless otherwise stated)

		Attributable to shareholders of the Company					
	Note	Share capital	Other reserves	Retained earnings / (accumulated losses)	Total	Minority Interests	Total equity
Balances at 1st January 2005		1,941,174	944,402	156,874	3,042,450	1,128,866	4,171,316
Loss for the year		—	—	(754,547)	(754,547)	(205,786)	(960,333)
Dividend declared	30	—	—	(58,261)	(58,261)	(92,096)	(150,357)
Balances at 31st December 2005 and 1st January 2006		1,941,174	944,402	(655,934)	2,229,642	830,984	3,060,626
Profit for the year		—	—	129,512	129,512	38,203	167,715
Negative reserve arising from share reform	8	—	(176,083)	—	(176,083)	191,022	14,939
Dividends declared to minority investors by certain subsidiaries		—	—	—	—	(19,770)	(19,770)
Acquisition of additional interests of a subsidiary from a minority investor		—	(2,173)	—	(2,173)	(4,726)	(6,899)
Balances at 31st December 2006		1,941,174	766,146	(526,422)	2,180,898	1,035,713	3,216,611

The notes on pages 75 to 140 are an integral part of these financial statements

Xing Daoqin
Chairman

Guo Mengquan
Director

Consolidated Cash Flow Statement

For the year ended 31st December 2006
(All amounts in thousands of RMB unless otherwise stated)

	Note	**2006**	2005
Cash flows from operating activities			
Cash generated from operations	31(a)	**450,082**	305,353
Interest paid		**(61,849)**	(69,048)
Income tax paid		**(24,943)**	(32,155)
Net cash generated from operating activities		**363,290**	204,150
Cash flows from investing activities			
Purchase of property, plant and equipment		**(105,741)**	(445,792)
Proceeds from sale of property, plant and equipment		**1,489**	17,584
Proceeds from liquidation of a subsidiary		**—**	1,016
Purchase of intangible assets		**(6,905)**	(2,942)
Acquisition of additional interests of a subsidiary from a minority investor		**(6,899)**	—
Proceeds from sales of trading securities		**—**	5,046
Interest received		**6,521**	5,986
Increase in investment in an associate		**(10,000)**	(1,600)
Net cash used in investing activities		**(121,535)**	(420,702)
Cash flows from financing activities	31(b)		
Proceeds from borrowings		**743,292**	1,397,942
Repayments of borrowings		**(1,070,793)**	(1,557,765)
Increase/(decrease) in due to related parties and minority interests - non-trade		**504**	(54,311)
(Increase)/decrease in pledged bank balance		**(30,009)**	21,000
Dividends paid to the Company's shareholders		**—**	(14,585)
Dividends paid to minority investors		**(23,093)**	(84,407)
Net cash used in financing activities		**(380,099)**	(292,126)
Net decrease in unpledged cash and cash equivalents		**(138,344)**	(508,678)
Unpledged cash and cash equivalents at 1st January		**587,838**	1,096,516
Unpledged cash and cash equivalents at 31st December	13	**449,494**	587,838

The notes on pages 75 to 140 are an integral part of these financial statements

Xing Daoqin
Chairman

Guo Mengquan
Director

1. General information of the Group

IRICO Group Electronics Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") manufacture, distribute and sell colour picture tubes ("CPTs") and CPT-related components and materials. The Company was incorporated in the People's Republic of China (the "PRC") on 10th September 2004 as a joint stock company with limited liability under the PRC laws. The Company's shares were listed in The Stock Exchange of Hong Kong Limited on 20th December 2004. The address of its registered office is No.1 Caihong Road, Xianyang, Shaanxi Province, PRC.

These consolidated financial statements are presented in thousands of units of Renminbi ("RMB"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 12th April 2007.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets at fair value through income statement.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4 to the financial statements.

2. Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

(a) Amendments to published standards effective in 2006 adopted by the Group and relevant to its operation

HKAS 19 (Amendment), Employee Benefits, is mandatory for the Group's accounting periods beginning on or after 1st January 2006. It introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the Group does not intend to change the accounting policy adopted for recognition of actuarial gains and losses and does not participate in any multi-employer plans, adoption of this amendment only impacts the format and extent of disclosures presented in the financial statements.

(b) Standards and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1st May 2006 or later periods that the Group has not early adopted:

- HKFRS 7, Financial instruments: Disclosures, and the complementary Amendment to HKAS 1, Presentation of Financial Statements - Capital Disclosures, introduces new disclosures relating to financial instruments. The Group will apply HKFRS 7 from 1st January 2007, but it is not expected to have any impact on the Group's consolidated financial statements;

- HK(IFRIC)-Int 8, Scope of HKFRS 2 (effective for annual periods beginning on or after 1st May 2006). HK(IFRIC)-Int 8 requires consideration of transactions involving the issuance of equity instruments - where the identifiable consideration received is less than the fair value of the equity instruments issued - to establish whether or not they fall within the scope of HKFRS 2. The Group will apply HK(IFRIC)-Int 8 from 1st January 2007, but it is not expected to have any impact on the Group's consolidated financial statements; and

2. Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

(b) Standards and interpretations to existing standards that are not yet effective and have not been early adopted by the Group *(continued)*

- HK(IFRIC)-Int 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1st November 2006). HK(IFRIC)-Int 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply HK(IFRIC)-Int 10 from 1st January 2007, but it is not expected to have any impact on the Group's financial statements.

(c) Interpretation to existing standards that is not yet effective and not relevant for the Group's operations

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1st May 2006 or later periods but are not relevant for the Group's operations:

- HK(IFRIC)-Int 7, Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1st March 2006). HK(IFRIC)-Int 7 provides guidance on how to apply requirements of IAS/HKAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional Currency, when the economy was not hyperinflationary in the prior period. As none of the group entities have a Currency of a hyperinflationary economy as its functional Currency, HK(IFRIC)-Int 7 is not relevant to the Group's operations; and

- HK(IFRIC)-Int 9, Reassessment of embedded derivatives (effective for annual periods beginning on or after 1st June 2006). HK(IFRIC)-Int 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment if required. As none of the group entities have changed the terms of their contracts, HK(IFRIC)-Int 9 is not relevant to the Group's operations.

2. Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

(d) Standards, amendments and interpretations effective in 2006 but not relevant for the Group's operations

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1st January 2006 but are not relevant to the Group's operations:

HKAS 21 Amendment	New Investment in a Foreign Operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 and HKFRS 4 Amendment	Financial Guarantee Contracts
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 8	Operating Segments
HK(IFRIC)-Int 4	Determining Whether an Arrangement Contains a Lease
HK(IFRIC)-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities Arising from Participating in a Specific Market Waste Electrical and Electronic Equipment
HK(IFRIC)-Int 11	Group and Treasury Share Transactions

2. Summary of significant accounting policies *(continued)*

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31st December.

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. If the Group has less than one half of the voting rights but has de facto control in an entity, such entity is also considered as subsidiary of the Group. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2. Summary of significant accounting policies *(continued)*

2.2 Consolidation *(continued)*

(b) Transactions and minority interests

The Group applies a policy of treating transactions with minority interests as transactions with equity owners of the Group. For purchases from minority interests, the difference between any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is deducted from equity. Gains or losses on disposals to minority interests are also recorded in equity. For disposals to minority interests, differences between any proceeds received and the relevant share of minority interests are also recorded in equity.

(c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investment in associates are stated at cost less provision for impairment losses (note 2.7). The results of associates are accounted for by the Company on the basis of dividend received and receivable.

2. Summary of significant accounting policies *(continued)*

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in RMB, which is the Group's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

2.5 Property, plant and equipment

Property, plant and equipment comprise mainly buildings, machineries, office equipments and others. Property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the income statement during the financial period in which they are incurred.

2. Summary of significant accounting policies *(continued)*

2.5 Property, plant and equipment *(continued)*

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Buildings	10 – 40 years
Machinery for electronics production	15 years
Machinery for glass production	6 – 18 years
Other machinery	18 years
Office equipment and others	5 years

No depreciation is provided on construction in progress. All direct and indirect costs relating to the construction of property, plant and equipment including interest and financial costs and foreign exchange differences on the related borrowed funds during the construction period are capitalised as the cost of the property, plant and equipment.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

2.6 Intangible assets

(a) Licences for technical knowledge

Expenditure on licenses is capitalised and amortised using the straight-line method over their useful lives, but not exceeding 20 years.

(b) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 5 years.

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred.

2. Summary of significant accounting policies *(continued)*

2.7 Impairment of investments in subsidiaries, associates and non-financial assets

Assets that have an indefinite useful life or have not yet available for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Available-for-sale financial assets are initially recognised at fair value plus transaction costs. They are subsequently carried at fair value. Changes in fair value are recognised in equity. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at cost.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade and other receivables is described in Note 2.10 to the financial statements.

2.9 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2. Summary of significant accounting policies *(continued)*

2.10 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are in the income statement.

2.11 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with banks.

2.12 Share capital

Ordinary shares are classified as equity.

2.13 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.14 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2. Summary of significant accounting policies *(continued)*

2.15 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2.16 Employee benefits

(a) Pension and housing obligations

The full time employees of the Group are covered by various government-sponsored pension plans under which the employees are entitled to a monthly pension based on certain formulas. These government-sponsored pension plans are responsible for the pension liability to these retired employees. The Group contributes on a monthly basis to these pension plans. Under these plans, the Group has no legal or constructive obligation for retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred. Voluntary payments made to certain former employees and which were not made pursuant to a formal or informal plan are expensed as paid.

Full time employees are also entitled to participate in various government-sponsored housing funds. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees. The Group's liability in respect of these funds is limited to the contributions payable in each period.

(b) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

2. Summary of significant accounting policies *(continued)*

2.16 Employee benefits *(continued)*

(c) Early retirement benefits

Employee early retirement benefits are recognised in the period in which the Group enters into an agreement with the employee specifying the terms of early retirement or after the individual employee has been advised of the specific terms. The specific terms vary among the early retired employees depending on various factors including position and length of services. Early retirement benefits falling due more than 12 months after the balance sheet date are discounted to present value.

2.17 Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2. Summary of significant accounting policies *(continued)*

2.18 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, business tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised as follows:

(a) Sales of goods

Sales of goods are recognised when the Group has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(b) Provision of services

Provision of services is recognised in the accounting period in which the services are rendered.

2.19 Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

2. Summary of significant accounting policies *(continued)*

2.20 Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged in the income statement on a straight-line basis over the period of the lease.

2.21 Contingent liability

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

2.22 Research and development expenses

Research expense is recognised as an expense as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and only if the cost can be measured reliably. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in subsequent periods.

2.23 Grants

Grants related to income are deferred and are recognised in the income statement on a systematic basis to match with the related costs which they are intended to compensate, otherwise grants with no future related costs are recognised on receipt basis.

Grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

2. Summary of significant accounting policies *(continued)*

2.24 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk and price risk), credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by senior management under policies approved by the Board of Directors.

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in the PRC. Revenue and majority of its operating costs and cost of sales are denominated in RMB. No significant foreign exchange risk arising from future commercial transactions, recognised assets and liabilities is expected.

(ii) Price risk

The Group is exposed to commodity price risk. Since 1996, all colour television set manufacturers in the PRC have lowered or even substantially lowered the selling prices of their products due to over-production. As a result, the profit margins of the color television set industry have decreased. As the CPT industry is the upstream industry of the colour television set industry, the selling prices of CPTs also decreased. The Directors believe that the declining trend in the prices of colour television sets has stabilised and any further decline in their prices will have impacts on our profitability.

3 Financial risk management *(continued)*

3.1 Financial risk factors *(continued)*

(a) Market risk *(continued)*

(iii) Interest rate risk

The Group has interest-bearing assets mainly in the form of bank balances, but the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The interest rate risk arises from bank borrowings. The short-term bank borrowings are interest bearing at rates between 3.78%–6.22% and are repayable according to the contract terms.

(b) Credit risk

Sales to four (2005: two) of the Group's major customers exceed 10% of the total turnover. The aggregate sales to the five largest customers represents 65% (2005: 55%) of total turnover.

The Group has policies in place to ensure that sale of products are made to customers with an appropriate credit history. The Group also performs periodic credit evaluations of its customers and believes that adequate provision for doubtful trade receivables has been made in the financial statements.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, senior management aims to maintain flexibility in funding by keeping committed credit lines available.

3.2 Fair value estimation

The nominal value impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. Critical accounting estimates and judgments

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Estimated fair value of available-for-sale financial assets

The fair value of financial instruments that are not traded in active market is determined based on available recent market information such as most recent market transaction price with third parties and the latest available financial information existing at each balance sheet date.

(ii) Income taxes

The Group is subject to income taxes in various jurisdictions. Significant judgment is required in determining provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

4. Critical accounting estimates and judgments *(continued)*

(a) Critical accounting estimates and assumptions *(continued)*

(ii) Income taxes *(continued)*

Deferred taxation is provided in full, using the liability method, on temporary difference arising between the tax bases of assets and liabilities and their carrying values in the financial statements. Deferred tax assets are recognised for deductible temporary differences to the extent it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised, based on all available evidence. Because there is no quantification of likelihood provided in HKFRS on the term "probable" it is subject to a varying degree of interpretations. Recognition primarily involves judgement regarding the future financial performance of the particular legal entity or tax group in which the deferred tax assets has been recognised. A variety of other factors are also evaluated in all of the deferred tax assets will ultimately be realised, such as the existence of taxable temporary differences, group relief, tax planning strategies and the periods in which estimated tax losses can be utilised. The carrying amount of deferred tax assets and related financial models and budgets are reviewed at each balance sheet date and to the extent that there is insufficient convincing evidence that sufficient taxable profits will be available within the utilisation periods to allow utilisation of the deductible temporary differences, the asset balance will be reduced and charged to income statement.

(iii) Estimated impairment of non-financial assets

The Group tests annually whether non-financial assets have suffered any impairment in accordance with accounting policies stated in note 2.7 to the financial statements. The recoverable amounts of non-financial assets have been determined based on value-in-use calculations. These calculations require the use of estimates.

The Group tests annually whether property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset or a cash-generating unit is determined based on value-in-use calculations prepared on the basis of management's assumptions and estimates taking into account the existing business expansion plan going forward, the current sales orders on hand and other strategic new business development.

4. Critical accounting estimates and judgments *(continued)*

(a) Critical accounting estimates and assumptions *(continued)*

(iii) Estimated impairment of non-financial assets *(continued)*

As at 31st December 2006, the Group provided for an impairment loss of RMB67,205,000 (2005: RMB567,659,000)(note 24) in respect of property, plant and equipment. The items being written down to recoverable amount due to there being business situation concerns over future profitability. The recoverable amounts of different production plants, cash generating units to which the property, plant and equipment belong, have been determined based on value-in-use calculations using cash flow projections determined by an independent professional valuer based on financial budgets approved by senior management of the Group covering a four-year period. Cash flows beyond the four-year period are extrapolated using the estimated declining rates ranging from 5% per annum to 35% per annum for different cash generating units. The after-tax discount rates applied to cash flow projections range from 12.23% per annum to 12.97% per annum.

If the revised estimated gross margin had been 10% lower than management's estimates at 31st December 2006, the Group would need to further reduce the carrying value of property, plant and equipment by RMB192,000,000.

If the revised estimated after-tax discount rates applied to the discounted cash flows adopted in the value-in-use calculations had been 10% higher than management's estimates at 31st December 2006, the Group would need to reduce the carrying value of property, plant and equipment by RMB62,000,000.

If the actual gross margin had been 10% higher or the after-tax discounted rates had been 10% lower than management's estimates at 31st December 2006, the Group would be able to reverse the impairment losses by RMB211,000,000 and RMB67,000,000 that arose on these assets.

4. Critical accounting estimates and judgments *(continued)*

(b) Critical judgments in applying the Group's accounting policies

The following critical accounting judgements maybe applicable, among many other possible areas not presented in these consolidated financial statements.

(i) Impairment of available-for-sale financial assets

The Group follows the guidance of HKAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

If all of the declines in fair value below cost were considered significant or prolonged, the Group would suffer an additional loss of in its 2006 financial statements, being the transfer of the accumulated fair value adjustments recognised in equity on the impaired available for sale financial assets to the income statement.

(ii) Net realisable values of inventories

Inventories are carried at the lower of cost and net realisable value. The cost of inventories is written down to net realisable value when there is an objective evidence that the cost of inventories may not be recoverable. The cost of inventories may not be recoverable if those inventories are damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. The cost of inventories may not also be recoverable if the estimated costs to be incurred to make the sale have increased. The amount written off to the profit and loss account is the difference between the carrying value and net realisable value of the inventories. In determining whether the cost of inventories can be recoverable, significant judgment is required. In making this judgment, the Group evaluates, among other factors, the duration and extent by all means to which the amount will be recovered.

(iii) Contingent liabilities in respect of litigations

The Group has been engaged in two litigations (note 32). Contingent liabilities arising from these litigations have been assessed by the Directors with reference to legal advice.

(All amounts in thousands of RMB unless otherwise stated)

5. Property, plant and equipment

Group

	Buildings	Machinery for electronics production	Machinery for glass production	Other machinery	Office equipment and others	Construction in progress	Total
At 1st January 2005							
Cost	437,333	2,602,240	794,529	723,995	111,689	907,309	5,577,095
Accumulated depreciation and impairment loss	(179,207)	(1,128,519)	(408,996)	(371,971)	(72,212)	—	(2,160,905)
Net book amount	258,126	1,473,721	385,533	352,024	39,477	907,309	3,416,190
Year ended 31st December 2005							
Opening net book amount	258,126	1,473,721	385,533	352,024	39,477	907,309	3,416,190
Additions	206	68,821	—	34,399	3,558	338,118	445,102
Transfers	79	288,782	84,409	114,371	9,906	(497,547)	-
Transfer to inventories	—	—	—	—	—	(12,311)	(12,311)
Disposals	—	(8,926)	—	(1,293)	(1,153)	(1,525)	(12,897)
Depreciation charge *(note 24)*	(20,365)	(160,630)	(92,860)	(60,317)	(12,817)	—	(346,989)
Impairment charge *(note 24)*	—	(159,077)	—	(12,610)	—	(395,972)	(567,659)
Closing net book amount	238,046	1,502,691	377,082	426,574	38,971	338,072	2,921,436
At 31st December 2005							
Cost	437,618	2,884,203	878,938	861,163	114,101	734,044	5,910,067
Accumulated depreciation and impairment loss	(199,572)	(1,381,512)	(501,856)	(434,589)	(75,130)	(395,972)	(2,988,631)
Net book amount	238,046	1,502,691	377,082	426,574	38,971	338,072	2,921,436
Year ended 31st December 2006							
Opening net book amount	238,046	1,502,691	377,082	426,574	38,971	338,072	2,921,436
Additions	—	30,530	—	28,114	1,960	37,624	98,228
Transfers/reclassification	25,780	223,312	35,874	13,265	2	(298,233)	—
Transfer to inventories	—	—	—	—	—	(17,659)	(17,659)
Transfer to intangible assets	—	—	—	—	—	(27,917)	(27,917)
Disposals *(note 31)*	—	(14,760)	—	(54,794)	(2,440)	—	(71,994)
Depreciation charge *(note 24)*	(16,536)	(156,592)	(97,069)	(56,683)	(10,581)	—	(337,461)
Impairment charge *(note 24)*	—	(56,735)	(8,715)	(1,755)	—	—	(67,205)
Closing net book amount	247,290	1,528,446	307,172	354,721	27,912	31,887	2,497,428
At 31st December 2006							
Cost	463,398	3,438,324	970,522	794,321	104,697	31,887	5,803,149
Accumulated depreciation and impairment loss	(216,108)	(1,909,878)	(663,350)	(439,600)	(76,785)	—	(3,305,721)
Net book amount	247,290	1,528,446	307,172	354,721	27,912	31,887	2,497,428

(All amounts in thousands of RMB unless otherwise stated)

5. Property, plant and equipment *(continued)*

Company

	Machinery for electronics production	Machinery for glass production	Other Machinery	Office equipment and others	Construction in progress	Total
At 1st January 2005						
Cost	951,834	487,067	423,295	72,736	379,845	2,314,777
Accumulated depreciation and impairment loss	(398,756)	(245,759)	(132,332)	(51,092)	—	(827,939)
Net book amount	553,078	241,308	290,963	21,644	379,845	1,486,838
Year ended 31st December 2005						
Opening net book amount	553,078	241,308	290,963	21,644	379,845	1,486,838
Additions	62,222	—	14,443	2,842	156,392	235,899
Transfers	267,621	84,409	27,759	9,250	(389,039)	—
Disposals	(827)	—	(10)	(702)	—	(1,539)
Depreciation charge	(83,455)	(32,371)	(27,683)	(7,199)	—	(150,708)
Impairment charge	(57,237)	—	(10,371)	—	(75,648)	(143,256)
Closing net book amount	741,402	293,346	295,101	25,835	71,550	1,427,234
At 31st December 2005						
Cost	1,215,784	571,476	459,612	76,817	147,198	2,470,887
Accumulated depreciation and impairment loss	(474,382)	(278,130)	(164,511)	(50,982)	(75,648)	(1,043,653)
Net book amount	741,402	293,346	295,101	25,835	71,550	1,427,234
Year ended 31st December 2006						
Opening net book amount	741,402	293,346	295,101	25,835	71,550	1,427,234
Additions	14,855	—	1,348	802	10,418	27,423
Transfers/reclassification	9,473	35,874	(16,508)	—	(28,839)	—
Transfer to inventories	—	—	—	—	(17,659)	(17,659)
Disposals	(14,703)	—	(54,647)	(1,295)	—	(70,645)
Depreciation charge	(74,122)	(36,987)	(21,372)	(6,153)	—	(138,634)
Impairment reversal/(charge)	4,416	(8,715)	—	—	—	(4,299)
Closing net book amount	681,321	283,518	203,922	19,189	35,470	1,223,420
At 31st December 2006						
Cost	1,223,675	663,060	336,881	71,464	35,470	2,330,550
Accumulated depreciation and impairment loss	(542,354)	(379,542)	(132,959)	(52,275)	—	(1,107,130)
Net book amount	681,321	283,518	203,922	19,189	35,470	1,223,420

(All amounts in thousands of RMB unless otherwise stated)

5. Property, plant and equipment *(continued)*

The Group's depreciation charge of RMB302,453,000 (2005: RMB317,648,000) has been expensed in cost of sales, RMB731,000 (2005: RMB872,000) in selling and marketing costs and RMB34,277,000 (2005: RMB28,469,000) in administrative expenses.

The Group's impairment charge of RMB67,205,000 (2005: RMB567,659,000) has been included in cost of sales.

The events and circumstances that led to the recognition of the impairment loss and the discount rates used in the current estimate of value in use are disclosed in note 4(a)(iii) to the financial statements.

As at 31st December 2006, short-term bank borrowings of the Group amounting to RMB140,000,000 (2005: RMB280,000,000) are secured on the Group's buildings and machineries with the carrying amount of RMB205,027,000 (2005: RMB284,673,000) (note 21).

6. Leasehold land and land use rights - Group

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book amounts are analysed as follows:

	2006	2005
Opening net book amount	**37,911**	39,496
Amortisation charge *(note 24)*	**(970)**	(1,585)
Closing net book amount	**36,941**	37,911
Outside Hong Kong, held on leases of:		
— between 10 to 50 years	**36,659**	37,590
— less than 10 years	**282**	321
	36,941	37,911

As at 31st December 2006, short-term bank borrowings of the Group amounting to RMB140,000,000 (2005: Nil) are secured on the Group's land use rights with the carrying amount of RMB21,012,000 (2005: Nil) (note 21).

(All amounts in thousands of RMB unless otherwise stated)

7. Intangible assets

Group

	Licences for technical knowledge	Computer Software	Total
At 1st January 2005			
Cost	330,638	—	330,638
Accumulated amortisation	(263,564)	—	(263,564)
Net book amount	67,074	—	67,074
Year ended 31st December 2005			
Opening net book amount	67,074	—	67,074
Additions	1,399	1,543	2,942
Amortisation charge *(note 24)*	(55,643)	(383)	(56,026)
Closing net book amount	12,830	1,160	13,990
At 31st December 2005			
Cost	332,037	1,543	333,580
Accumulated amortisation	(319,207)	(383)	(319,590)
Net book amount	12,830	1,160	13,990
Year ended 31st December 2006			
Opening net book amount	12,830	1,160	13,990
Additions	5,134	1,771	6,905
Transfer in from construction in progress	27,917	—	27,917
Amortisation charge *(note 24)*	(6,423)	(514)	(6,937)
Impairment charge *(note 24)*	(30,260)	—	(30,260)
Closing net book amount	9,198	2,417	11,615
At 31st December 2006			
Cost	365,088	3,314	368,402
Accumulated amortisation and impairment loss	(355,890)	(897)	(356,787)
Net book amount	9,198	2,417	11,615

Amortisation of RMB6,423,000 (2005: RMB55,643,000) has been expensed in cost of sales and RMB514,000 (2005: RMB383,000) in the administrative expenses in the income statement. The impairment charge of RMB30,260,000 for the purchased technical knowledge for manufacturing of super large-sized CPTs is included in cost of sales in the income statement. The Directors consider that the Group will no longer produce the super large-sized CPTs.

(All amounts in thousands of RMB unless otherwise stated)

7. Intangible assets *(continued)*

Company

	Licences for technical knowledge	Computer Software	Total
At 1st January 2005			
Cost	93,178	—	93,178
Accumulated amortisation	(71,644)	—	(71,644)
Net book amount	21,534	—	21,534
Year ended 31st December 2005			
Opening net book amount	21,534	—	21,534
Additions	1,397	1,543	2,940
Amortisation charge	(13,619)	(383)	(14,002)
Closing net book amount	9,312	1,160	10,472
At 31st December 2005			
Cost	94,575	1,543	96,118
Accumulated amortisation	(85,263)	(383)	(85,646)
Net book amount	9,312	1,160	10,472
Year ended 31st December 2006			
Opening net book amount	9,312	1,160	10,472
Additions	—	1,760	1,760
Amortisation charge	(2,324)	(506)	(2,830)
Closing net book amount	6,988	2,414	9,402
At 31st December 2006			
Cost	94,575	3,135	97,710
Accumulated amortisation	(87,587)	(721)	(88,308)
Net book amount	6,988	2,414	9,402

(All amounts in thousands of RMB unless otherwise stated)

8. Investments in and loan to subsidiaries - Company

(a) Investments in subsidiaries

	2006	2005
Investments, at cost:		
Shares in a listed company in the PRC	**624,793**	815,815
Unlisted shares	**477,434**	536,501
	1,102,227	1,352,316

As at 31st December 2006, The Group's shares in a listed company in the PRC represent a 42.9% equity interest in IRICO Display Device Co., Ltd. ("IRICO Display"), a company listed on the Shanghai Stock Exchange.

Prior to the share reform which was approved by the shareholders of IRICO Display on 18th July 2006, the Company had a 56.14% equity interest in IRICO Display.

Under the share reform, the Company offered 4.2 unlisted shares in IRICO Display for every 10 listed shares held on 27th July 2006 in consideration for such holders of listed shares to agree that all the IRICO Display's unlisted shares be converted into listed shares.

The Company has transferred a total of 51,403,287 unlisted shares in IRICO Display to listed shareholders, representing approximately 12.21% of the total issue shares of IRICO Display and approximately 21.74% of the Company's unlisted shares in IRICO Display. The Company also transferred a total of 4,361,148 unlisted shares to listed shareholders on behalf of 15 unlisted shareholders who did not pay for their consideration.

In the Group's consolidated financial statement, the above share reform reduced capital reserve attributable to the shareholders of the Company by RMB176,083,000 and increased minority interests by the same amount. In the Company's financial statement, investments in subsidiaries has been decreased by RMB176,083,000 and this reduction has been dealt with in the income statement. The share paid on behalf of the 15 unlisted shareholders of RMB14,939,000 are recorded as amount due from these shareholders and decreased minority interests by RMB14,939,000.

(All amounts in thousands of RMB unless otherwise stated)

8. Investments in and loan to subsidiaries - Company *(continued)*

(a) Investments in subsidiaries *(continued)*

As at 31st December 2006, the Company has direct and indirect interests in the following subsidiaries, all of which were established and operate in the PRC. The particulars of the subsidiaries are set out below:

Name	Registered Capital	Principal activities	Interest directly held by the Company	Interest indirectly held through subsidiaries	Attributable to the Group
IRICO Display	RMB421,148,800	Production and development of the electronic products and raw materials for colour display devices	42.9%	—	42.9%
IRICO Kunshan Industry Co., Ltd	RMB60,000,000	Production of the rubber parts of CPTs	80%	7.5%	87.5%
Shaanxi IRICO Phosphor Material Co., Ltd. ("IRICO Phosphor")	RMB90,000,000	Production of phosphor for various types of CPTs	45%	—	45%
Xian IRICO Zixun Co., Ltd.	RMB130,000,000	Production and sales of the parts and components for display devices and the electronic communication products	45%	23.60%	68.60%
Xianyang Caiqin Electronic Device Co., Ltd.	RMB25,000,000	Production and sales of pin, anode button, multi-form and frit for CPTs	87.16%	—	87.16%
Xianyang IRICO Electronic Parts Co., Ltd.	RMB55,000,000	Sales of shadow mask, frames and electronic products for CPTs	60%	—	60%
Xianyang IRICO Electronics Shadow Mask Co., Ltd.	US$5,000,000	Development and production of the flat shadow mask and the coordinating products for CPTs	75%	—	75%
Zhuhai Caizhu Industrial Co., Ltd.	RMB50,000,000	Manufacture of electronic devices and components	90%	—	90%

(All amounts in thousands of RMB unless otherwise stated)

8. Investments in and loan to subsidiaries - Company *(continued)*

(a) Investments in subsidiaries *(continued)*

Name	Registered Capital	Principal activities	Interest directly held by the Company	Interest indirectly held through subsidiaries	Attributable to the Group
IRICO Display Technology Co., Ltd.	US$2,500,000	Production and sale of CPTs, black and white picture tubes and ancillary electronic components	75%	—	75%
Xianyang IRICO Digital Display Co., Ltd.	RMB650,000,000	Production and sales of CPTs	51%	21.02%	72.02%
Caizhu Jinshun Electronic Industry Co., Ltd.	RMB10,000,000	Production and sales of frit for CPTs	—	100%	100%
Kunshan Caihong Yingguang Electronics Co., Ltd.	US$4,500,000	Production of procession alloy and other products for color and black and white picture tubes	—	60%	60%
Nanjing Reide Phosphor Co., Ltd.	US$443,300	Production and processing of recycled phosphor and related products for various types of CPTs	—	45%	45%
Xian Caihui Display Technology Co., Ltd.	RMB10,000,000	R&D, design, manufacture, sales of CPTs, deflection yoke and related component and part as well as the after sale services for the sold product	—	100%	100%

(b) Loan to a subsidiary

The loan to a subsidiary is unsecured, carries interest at 6.12% (2005: 5.58%) per annum and repayable on 14th June 2007 (2005: 22nd December 2006).

(All amounts in thousands of RMB unless otherwise stated)

9. Interests in associates

	Group 2006	2005
Opening carrying amount	**17,339**	18,218
Additions	**215,826**	1,600
Share of associates' profits less losses	**(945)**	(2,479)
Closing carrying amount	**232,220**	17,339

The Group's interests in its associates, all of which are unlisted, are as follows:

Name	Country of incorporation	Assets	Liabilities	Revenues	Profit / (loss)
2006					
Sichuan Century Shuanghong Display Devices Co., Ltd.	PRC	209,112	16,466	—	(1,636)
Xian New Century International Club Co., Ltd.	PRC	20,941	7,523	13,604	271
Shenzhen Ruisheng Phosphor Material Co.,Ltd.	PRC	2,967	456	3,526	1,207
Xian IRICO Plastic Industry Co., Ltd.	PRC	2,100	—	2,072	(787)
		235,120	24,445	19,202	(945)
2005					
Xian New Century International Club Co., Ltd.	PRC	22,324	9,176	9,855	(2,008)
Shenzhen Ruisheng Phosphor Material Co.,Ltd.	PRC	2,164	861	129	(297)
Xian IRICO Plastic Industry Co., Ltd.	PRC	3,470	582	3,118	(174)
		27,958	10,619	13,102	(2,479)

(All amounts in thousands of RMB unless otherwise stated)

9. Interests in associates *(continued)*

The particulars of the associates of the Group at 31st December 2006 are set out below:

Name	Registered Capital	Principal activities	Interest directly held by the Company	Interest indirectly held through subsidiaries	Attributable to the Group
Sichuan Century Shuanghong Display Devices Co., Ltd. (note)	RMB 180,000,000	Production, research and development and sale of plasma display panels ("PDP") and related materials.	20%	—	20%
Xian IRICO Plastic Industry Co., Ltd.	RMB 10,000,000	Production of deflection yoke spacers and balances for colour display devices	—	30%	30%
Xian New Century International Club Co., Ltd.	RMB 48,000,000	Provision of catering services and the operation of amenity centers	—	41.67%	41.67%
Shenzhen Ruisheng Phosphor Material Co.,Ltd.	RMB4,000,000	Production regenerated red, green and blue phosphor materials	—	40%	40%

9. Interests in associates *(continued)*

Note:

On 27th March 2006, the Company and Sichuan Changhong Group Corporation ("Changhong Group"), contributed cash of RMB1,000,000 each to form a company named "Beijing Century Shuanghong Display Devices Co., Ltd." with registered capital of RMB2,000,000. In July 2006, Beijing Century Shuanghong Display Devices Co., Ltd. was renamed as Sichuan Century Shuanghong Display Devices Co., Ltd. ("Sichuan Shuanghong").

On 10th October 2006, the Company and Changhong Group entered into an Increased Contributions Agreement for increasing the registered capital of Sichuan Shuanghong (the "Increased Contribution Agreement"). Pursuant to the Increased Contributions Agreement, the Group agreed to make additional capital contributions of RMB359 million, comprising cash of RMB119 million, tangible assets of RMB98 million and intangible assets of RMB142 million (the "Transaction Price") to Sichuan Shuanghong. The values of the tangible and intangible assets were negotiated and determined between the Company and Changhong Group on an arm's length basis with reference to a valuation report prepared by an independent professional valuer in the PRC.

Immediately following such increase in capital contributions, the registered capital of Sichuan Shuanghong will be increased to RMB1,800 million of which RMB360 million (20%) and RMB1,440 million (80%) are attributable from the Company and Changhong Group respectively. The increased capital is scheduled to be contributed by both parties in accordance to the requirements as stated in the Company Law of the PRC.

Pursuant to the Increased Contributions Agreement, the Company has contributed RMB240 million by way of injection of tangible and intangible assets in November 2006 and cash of RMB9 million. The Group recognised the gain on disposal of these tangible and intangible assets after considering the elimination of the 20% share of Group's unrealised valuation surplus of RMB171 million i.e. RMB34.2 million based on the equity accounting method. Thus the gain on disposal of property, plant and equipments is RMB23 million and the gain on disposal of intangible assets is RMB114 million.

Company

As at 31st December 2006, the investment in Sichuan Shuanghong at the Company's balance sheet was RMB250,000,000 resulted from the recognition of total valuation surplus of RMB171 million.

(All amounts in thousands of RMB unless otherwise stated)

10. Available-for-sale financial assets - Group

	2006	2005
Unlisted investments	**33,500**	33,500
Provision for impairment loss	**(9,440)**	(9,440)
	24,060	24,060

Unlisted investments substantially comprise of the investment in equity interests in Western Trust & Investment Co., Ltd.("WTI"), a state controlled trust enterprise. WTI has a number of investments in unlisted enterprises which have no readily available information concerning their market values. These investments held by WTI are stated at cost in WTI's book. The Directors consider that the underlying values of these investments were not less than their carrying amounts as at 31st December 2006.

11. Inventories

	Group		**Company**	
	2006	2005	**2006**	2005
Raw materials	**190,775**	208,397	**146,338**	140,026
Work in progress	**170,158**	311,177	**66,213**	168,109
Finished goods	**271,311**	149,863	**105,157**	61,647
Consumables	**20,665**	21,620	**4,926**	5,662
	652,909	691,057	**322,634**	375,444
Write-down to net realisable value	**(20,994)**	(19,274)	**(6,869)**	(3,761)
	631,915	671,783	**315,765**	371,683

As at 31st December 2006, inventories that has been carried at net realisable value amounted to approximately RMB207,755,000 (2005: RMB110,999,000).

(All amounts in thousands of RMB unless otherwise stated)

12. Trade receivables

	Group		Company	
	2006	2005	**2006**	2005
Trade receivables				
— third parties	**344,065**	383,474	**92,929**	62,672
— related parties *(note 34)*	**335,923**	243,694	**88,470**	48,798
— subsidiaries of the Company	**—**	—	**286,929**	325,200
	679,988	627,168	**468,328**	436,670
Less: provision for impairment of receivables	**(11,466)**	(13,229)	**(58,900)**	(11,963)
Trade receivables – net	**668,522**	613,939	**409,428**	424,707
Trade bills receivable				
— third parties	**220,980**	224,234	**40,307**	53,948
— related parties *(note 34)*	**622,790**	636,264	**136,137**	180,906
	843,770	860,498	**176,444**	234,854
	1,512,292	1,474,437	**585,872**	659,561

As at 31st December 2005 and 2006, the ageing of trade bills receivable are all within 180 days.

The Group offers credit terms to its customers ranging from cash on delivery to 90 days. At 31st December 2006 and 2005, the ageing analyses of trade receivables are as follows:

	Group		Company	
	2006	2005	**2006**	2005
0-90 days	**602,268**	553,982	**362,627**	431,112
91-180 days	**57,774**	62,812	**93,961**	1,351
181-365 days	**7,580**	3,493	**7,220**	393
Over 365 days	**12,366**	6,881	**4,520**	3,814
	679,988	627,168	**468,328**	436,670

Notes to the financial statements

For the year ended 31st December 2006
(All amounts in thousands of RMB unless otherwise stated)

13 Cash and bank balances

	Group		Company	
	2006	2005	**2006**	2005
Pledged balances	**30,009**	—	**30,009**	—
Unpledged balances				
— time deposits	**30,000**	58,500	**—**	—
— other cash and bank balances	**419,494**	529,338	**191,720**	186,555
	479,503	587,838	**221,729**	186,555

All the cash and bank balances are denominated in RMB and deposited with banks in the PRC except for the equivalent amounts of RMB110,763,000 (2005: RMB212,597,000) at 31st December 2006 which is denominated in foreign currencies. The conversion of these RMB denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

As at 31st December 2006, cash and bank balances included deposit of RMB30,009,000 (2005: Nil) which was pledged to secure trade bills payable.

The effective interest rate on time deposits was 2.25% (2005: 2.07% to 2.25%). These deposits have a maturity from 180 days to 365 days (2005: 180 days to 365 days).

14 Share capital

	As at 31st December 2005 and 2006	
	Number of shares	**Amount**
Issued and fully paid		
Domestic shares of RMB1 Yuan each	1,455,880,000	1,455,880
H shares of RMB1 Yuan each	485,294,000	485,294
	1,941,174,000	1,941,174

The H shares rank pari passu in all respects with the domestic shares and rank equally for all dividends or distributions declared, paid or made except that all dividends in respect of H shares are to be paid by the Company in Hong Kong dollars and H shares may only be subscribed for by, and traded in Hong Kong dollars between legal or natural persons of any other country other than the PRC. The transfer of the domestic shares is subject to such restrictions as the PRC laws may impose from time to time.

(All amounts in thousands of RMB unless otherwise stated)

15 Other reserves

Group

	Capital Reserve *(Note (i))*	Statutory surplus reserve *(Note (ii))*	Statutory public welfare fund *(Note (iii))*	Total
At 1st January, 31st December 2005 and 1st January 2006	920,872	15,687	7,843	944,402
Negative reserve arising from share reform (note 8)	(176,083)	—	—	(176,083)
Acquisition of additional interests of a subsidiary from a minority investor	(2,173)	—	—	(2,173)
Transfers	—	7,843	(7,843)	—
At 31st December 2006	742,616	23,530	—	766,146

Company

	Capital Reserve *(Note (i))*	Statutory surplus reserve *(Note (ii))*	Statutory public welfare fund *(Note (iii))*	Total
At 1st January, 31st December 2005 and 1st January 2006	962,623	15,687	7,843	986,153
Transfers	—	7,843	(7,843)	—
At 31st December 2006	962,623	23,530	—	986,153

15 Other reserves *(continued)*

Notes:

(i) Capital reserve

Upon incorporation of the Company on 10th September 2004, the historical net value of the assets, liabilities and interests transferred to the Company were converted into the Company's capital with all the then existing reserves eliminated and the resulting difference dealt with in the capital reserve. Accordingly, a capital reserve, being the difference between the amount of share capital issued and historical net value of the assets, liabilities and interests transferred to the Company, was presented in the reserves of both the Group and the Company. Separate class of reserves, including retained profits, of the Group prior to the incorporation of the Company were not separately disclosed as all these reserves have been capitalised and incorporated in the capital reserve of the Group and the Company.

(ii) Statutory surplus reserve

In accordance with the relevant PRC laws and financial regulations, every year the Company is required to transfer 10% of the profit after taxation determined in accordance with accounting principles and financial regulations applicable to PRC enterprises ("PRC GAAP") to the statutory surplus reserve until the balance reaches 50% of the paid-up share capital. Such reserve can be used to reduce any losses incurred and to increase share capital. Except for the reduction of losses incurred, any other usage should not result in this reserve balance falling below 25% of the registered capital.

(iii) Statutory public welfare fund

In accordance with the relevant PRC laws and financial regulations, every year the Company is required to transfer between 5% to 10% of the profits after taxation determined in accordance with PRC GAAP to the statutory public welfare fund. The use of this fund is restricted to capital expenditure for employees' collective welfare facilities, the ownership in respect of which belongs to the Group. The statutory public welfare fund is not available for distribution to shareholders except under liquidation. Once the capital expenditure on staff welfare facilities has been made, an equivalent amount must be transferred from statutory public welfare fund to the discretionary surplus reserve, a reserve which can be used to reduce any losses incurred or to increase share capital.

In accordance with the revised PRC regulations which is effective from 1st January 2006 and a circular issue by the Ministry of Finance ("MOF") (Cai Qi [2006] No.67), the Company is not required to provide for statutory public welfare fund out of appropriation of profit after taxation. The remaining balance as at 1st January 2006 is transferred into statutory surplus reserve.

(All amounts in thousands of RMB unless otherwise stated)

16 Deferred income

Deferred income represents grant received from the United Nations by the Group for its ozone depleting substance cleansing replacement project for acquiring machineries to treat the ozone depleting substance produced during the production process. This deferred income is amortised to the income statement on a straight-line basis over the expected lives of the corresponding assets of 5 years.

17 Deferred income tax

Deferred taxation is calculated in full on temporary differences under the liability method using principal taxation rates of 33% (2005: 33%) except for certain subsidiaries mentioned in note 27 to the financial statements which are subject to tax concession to pay income tax at 15% (2005: 15%).

The gross movement on the deferred income tax account is as follows:

	Group		Company	
	2006	2005	**2006**	2005
Opening carrying amount	**15,698**	(9,947)	**3,614**	2,307
(Credited)/debited to the income statement	**(121)**	25,645	**2,503**	1,307
Closing carrying amount	**15,577**	15,698	**6,117**	3,614

(All amounts in thousands of RMB unless otherwise stated)

17 Deferred income tax *(continued)*

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax liabilities:

	Group Accelerated tax depreciation	**Company Accelerated tax depreciation**
At 1st January 2005	18,094	2,537
(Credited)/debited to the income statement	(2,396)	1,077
At 31st December 2005 and 1st January 2006	15,698	3,614
(Credited)/debited to the income statement	(121)	2,503
At 31st December 2006	15,577	6,117

The deferred tax liabilities are to be recovered after more than 12 months.

Deferred income tax assets are recognised for tax loss carry-forwards and other deductible temporary differences to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB34,388,000 (2005: RMB355,277,000) where, in the opinion of the Directors, it is not probable that sufficient taxable profits will be available within the utilisation periods to allow utilisation of the tax losses and other deductible temporary differences.

The potential deferred tax assets which have not been recognised in the financial statements are as follows:

	2006	2005
Arising from tax losses	**3,287**	193,926
Arising from impairment	**29,712**	143,366
Arising from provision of assets	**1,251**	7,483
Arising from accrual of staff costs	**—**	3,938
Arising from elimination of unrealised profits	**138**	6,564
	34,388	355,277

The Group's unrecognised deferred tax assets in respect of tax losses will expire in 2010.

(All amounts in thousands of RMB unless otherwise stated)

18 Long-term payables

Long-term payables mainly represent early retirement allowance payable to the employees of the Group.

The maturity profile of the long-term payables was as follows:

	Group		Company	
	2006	2005	**2006**	2005
Opening carrying amount	**18,505**	—	**13,355**	—
Utilised during year	**(1,629)**	—	**(651)**	—
(Credited)/debited to income statement *(note 25)*	**(3,957)**	18,505	**(2,677)**	13,355
Closing carrying amount	**12,919**	18,505	**10,027**	13,355
Less: current portion included in current liabilities	**(2,347)**	(4,626)	**(962)**	(3,339)
Non-current portion	**10,572**	13,879	**9,065**	10,016

The provision mainly represented early retirement allowance payable to the employees of the Group. Compensation for early retirement is recognised in the earlier of the periods in which the Group established a constructive obligation and created a valid expectation on the employee, entered into an agreement with the employee specifying the terms, or after the individual employee has been advised of the specific terms.

The fair values of payables equal their carrying amount, as the impact of discounting is not significant. The fair values are based on cash flows discounted using a rate based on five-year bank borrowings rate of 6.12% (2005: 6.12%).

(All amounts in thousands of RMB unless otherwise stated)

19 Trade payables

	Group		Company	
	2006	2005	**2006**	2005
Trade payables				
— third parties	**335,690**	287,094	**185,446**	98,626
— related parties (note 34)	**212,241**	397,053	**138,685**	328,313
— subsidiaries of the Company	**—**	—	**25,340**	44,331
	547,931	684,147	**349,471**	471,270
Trade bills payable				
— third parties	**2,150**	—	**2,150**	—
— related parties *(note 34)*	**25,637**	10,000	**25,637**	10,000
	27,787	10,000	**27,787**	10,000
	575,718	694,147	**377,258**	481,270

At 31st December 2006 and 2005, the ageing analyses of trade payables are as follows:

	Group		Company	
	2006	2005	**2006**	2005
0 - 90 days	**497,373**	545,847	**343,452**	442,269
91 - 180 days	**12,237**	126,233	**3,812**	23,644
181 - 365 days	**17,145**	7,671	**606**	1,487
Over 365 days	**21,176**	4,396	**1,601**	3,870
	547,931	684,147	**349,471**	471,270

(All amounts in thousands of RMB unless otherwise stated)

20 Other payables and accruals

	Group		Company	
	2006	2005	**2006**	2005
Amount due to ultimate holding company *(note 34)*	**340,095**	339,591	**310,659**	319,946
Provisions of warranty *(note)*	**5,537**	3,939	**3,514**	3,939
Others	**380,879**	383,229	**281,757**	271,353
	726,511	726,759	**595,930**	595,238

Note:

Movements of the provisions of warranty are as follows:

	Group		Company	
	2006	2005	**2006**	2005
Opening carrying amount	**3,939**	4,818	**3,939**	4,818
Charged in the income statement *(note 24)*	**11,844**	12,520	**4,094**	12,520
Utilised during year	**(10,246)**	(13,399)	**(4,519)**	(13,399)
Closing carrying amount	**5,537**	3,939	**3,514**	3,939

Under the terms of the Group's sales agreements, the Group will rectify product defects arising within three years from the date of sales. Provision is therefore made for the best estimate of the expected settlement under these agreements in respect of sales made within the year prior to the balance sheet date. The amount of provision takes into account the Group's recent claim experience and the Group only makes provision where a claim is probable.

(All amounts in thousands of RMB unless otherwise stated)

21 Short-term bank borrowings

	Group		Company	
	2006	2005	**2006**	2005
Secured	**140,000**	280,000	**—**	—
Unsecured				
Guaranteed by the ultimate holding company	**640,000**	440,000	**470,000**	380,000
Advanced from banks on discounted trade receivables	**58,972**	203,335	**—**	98,763
Unguaranteed	**93,704**	336,842	**93,704**	256,842
	932,676	1,260,177	**563,704**	735,605

The fair values of these current borrowings equal their carryings amounts as the impact of discounting is not significant.

As at 31st December 2006, short-term bank borrowing of approximately RMB140,000,000 (2005: RMB280,000,000) are secured by certain land use rights (note 6), buildings and machineries of the Group (note 5).

As at 31st December 2006, the carrying amount of a borrowing amounted to RMB93,704,000 (2005: RMB96,842,000) is denominated by USD dollars. The remainings are denominated in Renminbi.

As at 31st December 2006 and 2005, all short-term bank borrowings are based on fixed interest rate. The effective interest rates as at balance sheet date were as follows:

	2006	2005
Short-term bank borrowings per annum	**3.78% - 6.22%**	3.51% - 5.94%

As at 31st December 2006, the unutilised banking facilities of the Group amounted to approximately RMB187,025,000 (2005: RMB203,158,000).

(All amounts in thousands of RMB unless otherwise stated)

22 Turnover

The Group is principally engaged in the manufacturing of CPT for colored television sets, related CPT components including glass bulbs, electron guns, shadow masks and their frames, deflection yokes, frit, anode buttons, phosphor, etc and provision of related packaging, engineering and trading services.

	2006	2005
Sales of CPTs and CPT components	**3,861,710**	3,927,500

The Group's revenues, expenses,assets, liabilities and capital expenditures are primarily attributable to the production and sales of CPT. The Directors consider that there is only one business segment for the Group.

The Group's principal market is Mainland China. The direct exports sales made by the Group contributed to less than 10 percent of the total revenues and results of the Group. Accordingly, no geographical segment is presented.

23 Other revenue and other net income

	2006	2005
Other revenue:		
Sales of raw materials, scraps and packaging materials	**19,498**	37,603
Other net income:		
Net gains on disposal of property, plant and equipments	**21,748**	4,687
Gains on disposal of intangible assets *(note 9)*	**113,573**	—
Gains on disposal of trading securities	**—**	1,422
Interest income	**6,521**	5,986
Amortisation of deferred income on grant received	**3,475**	3,475
Proceeds from collection of written off trade receivables	**700**	1,450
Rental income	**1,317**	1,179
Reversal of provision of doubtful debts	**1,763**	—
Others	**6,029**	3,096
	155,126	21,295

(All amounts in thousands of RMB unless otherwise stated)

24 Operating profit/(loss)

Operating profit/(loss) as stated after charging the following:

	2006	2005
Cost of inventories sold	**2,549,941**	2,988,327
Depreciation charge *(note 5)*	**337,461**	346,989
Amoritisation of leasehold land and land use rights *(note 6)*	**970**	1,585
Amortisation of intangible assets *(note 7)*	**6,937**	56,026
Employee benefit expense *(note 25)*	**473,910**	529,102
Impairment loss of property, plant and equipment	**67,205**	567,659
Impairment loss of intangible assets *(note 7)*	**30,260**	—
Transportation	**103,499**	105,081
Advertising costs	**124**	1,037
Research and development expenses	**25,917**	36,940
Provision for doubtful debts	**—**	10,583
Write-down of inventories to net realisable value	**1,720**	1,596
Operating lease rentals in respect of land use rights	**4,094**	4,218
Operating lease rentals in respect of property, plant and equipment	**37,336**	30,956
Net exchange losses	**12,216**	7,007
Provision for warranty *(note 20)*	**11,844**	12,520
Auditors' remuneration	**5,442**	5,639
Other expenses	**78,740**	83,546
Total cost of sales, distribution costs and administrative expenses	**3,747,616**	4,788,811

(All amounts in thousands of RMB unless otherwise stated)

25 Employee benefit expense

	2006	2005
Wages and salaries	**332,880**	355,240
Retirement benefit contributions		
- pension obligations *(note)*	**45,942**	55,166
- one-off termination benefits	**20,598**	—
- early retirement benefits *(note 18)*	**(3,957)**	18,505
Welfare and social security costs	**78,447**	100,191
	473,910	529,102

Note:

As stipulated by the rules and regulations in the PRC, the Group has participated in state-sponsored defined contribution retirement plans for its employees in the PRC. The Group and the eligible employees are required to contribute 20% and 7%, respectively, of the employee's basic salary. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees. The Group has no further pension obligation beyond the above contributions.

(All amounts in thousands of RMB unless otherwise stated)

25 Employee benefit expense *(continued)*

(a) Directors' and senior management's emoluments

The remuneration of every Director for the year ended 31st December 2006 is set out below:

Name of Director	Fee	Salary and allowance	Employer's contribution to pension scheme	Total
Executive Directors				
Mr. Xing Daoqing	—	227	9	236
Mr. Tao Kui	—	239	9	248
Mr. Guo Mengquan	—	211	9	220
Mr. Zhang Shaowen	—	207	9	216
Mr. Niu Xinan (note (i))	—	203	9	212
Non-executive Directors				
Mr. Zhang Xingxi	—	320	17	337
Mr. Yun Dah Jiunn (note (ii))	—	810	—	810
Mr. Feng Fei	100	—	—	100
Mr. Xu Xinzhong	100	—	—	100
Mr. Feng Bin	100	—	—	100
Mr. Wang Jialu	100	—	—	100
Mr. Zha Jianqiu	100	—	—	100
	500	2,217	62	2,779

(All amounts in thousands of RMB unless otherwise stated)

25 Employee benefit expense *(continued)*

(a) Directors' and senior management's emoluments *(continued)*

The remuneration of every Director for the year ended 31st December 2005 is set out below:

Name of Director	Fee	Salary and allowance	Employer's contribution to pension scheme	Total
Executive Directors				
Mr. Xing Daoqing	—	224	9	233
Mr. Ma Jinquan *(note (iii))*	—	170	6	176
Mr. Tao Kui	—	239	9	248
Mr. Guo Mengquan	—	213	9	222
Mr. Zhang Shaowen	—	210	9	219
Mr. Yun Dah Jiunn	—	1,554	—	1,554
Non-executive Directors				
Mr. Zhang Xingxi	—	270	14	284
Mr. Feng Fei	68	—	—	68
Mr. Xu Xinzhong	68	—	—	68
Mr. Feng Bin	67	—	—	67
Mr. Wang Jialu	67	—	—	67
Mr. Zha Jianqiu	67	—	—	67
	337	2,880	56	3,273

Notes:

(i) Appointed on 29th June 2006.

(ii) Mr. Yun Dah Jiunn has been re-designated as a non-executive Director with effect from 27th December 2006. Mr. Yun Dah Jiunn has also resigned from his office as chief financial controller of the Company;

(iii) Resigned on 5th August 2005.

(All amounts in thousands of RMB unless otherwise stated)

25 Employee benefit expense *(continued)*

(a) Directors' and senior management's emoluments *(continued)*

Except for Mr. Zhang Xingxi's and Mr. Niu Xinan's emoluments which are afforded by the Group's ultimate holding company, IRICO Group Corporation, other directors of the Company received no emolument from the parent company. No apportionment has been made as the directors consider that it is impracticable to apportion this amount between their services to the Group and their services to the Company's parent company.

No directors of the Group waived or agreed to waive any emolument during the years.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three directors (2005: one) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two individuals (2005: four) during the year are as follows:

	2006	2005
Basic salaries, housing allowances, share options, other allowances and benefits in kind	**555**	1,620
Retirement benefit contributions	**9**	26
	564	1,646

The emoluments fell within the following band:

	Number of individuals	
	2006	2005
Emolument band		
Nil to RMB1,000,000	**5**	4

During the year, no emolument was paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2005: Nil).

(All amounts in thousands of RMB unless otherwise stated)

26 Finance costs

	2006	2005
Interest expense on short-term bank borrowings	**56,512**	65,997
Interest expense to ultimate holding company *(note 34)*	**1,648**	1,048
Finance charge on discounted trade bills to banks	**3,689**	3,051
	61,849	70,096

27 Income tax expense

The provision for PRC current enterprise income tax ("EIT") is calculated based on the statutory income tax rate of 33% (2005: 33%) of the assessable income of the Group as determined in accordance with the relevant PRC income tax rules and regulations for the year except for the Company and certain subsidiaries described below. All corresponding EIT relating to the taxable profit during the year have been recognised in the consolidated income statement.

	2006	2005
Current income tax	**19,949**	22,732
Deferred income tax (note 17)	**(121)**	25,645
	19,828	48,377

(All amounts in thousands of RMB unless otherwise stated)

27 Income tax expense *(continued)*

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profit/(loss) of the consolidated companies as follows:

	2006	2005
Profit/(loss) before income tax	**187,543**	(911,956)
Tax calculated at statutory rate of 33%	**61,889**	(300,945)
Income under tax exemption and reduction (note)	**(49,307)**	(10,476)
Expenses not deductible for tax purposes	**1,136**	4,521
Utilisation of previously unrecognised tax losses	**(28,278)**	—
Unrecognised deferred tax assets	**34,388**	355,277
Total income tax expense	**19,828**	48,377

Note:

Companies are entitled to the preferential tax treatment for Opening Up of Western China ("OUWC Policy") if they are engaged in the projects listed in the Catalogue for Industries, Products and Technologies Currently and Particularly Encouraged by the State for Development (as amended in 2000) as their principal business and the revenue from the principal operations account for over 70% of their total revenue. The applicable reduced preferential EIT rate under the OUWC Policy is 15%. From 10th September 2004, date of incorporation of the Company, the operations of the Company have met the requirements under the OUWC Policy, and accordingly, EIT has been provided at 15% since then.

The operations of IRICO Display Devices Co., Ltd. have met the requirements under the OUWC Policy for the year ended 31st December 2006 and 2005, and accordingly, EIT has also been provided at 15%.

Xian IRICO Zixun Co., Ltd. was granted the status of high technology company. It is exempted from EIT for 2001 and 2002 and is required to pay EIT at a rate of 15% from 2003 to 2005. The operations of Xian IRICO Zixun Co., Ltd. have also met the requirements under the OUWC Policy for the year ended 31st December 2006 and accordingly, EIT has also been provided at 15%.

Zhuhai Caizhu Industrial Co., Ltd. and Caizhu Jinshun Electronic Industry Co., Ltd. are registered in a special economic zone and are entitled to pay EIT at 15% in 2006 and 2005.

(All amounts in thousands of RMB unless otherwise stated)

27 Income tax expense *(continued)*

Note: (continued)

Kunshan Caihong Yingguang Electronics Co., Ltd. is registered in a technological economic development zone and is required to pay EIT at a rate of 15% in 2006 and 2005.

Nanjing Reide Phosphor Co., Ltd., Xianyang IRICO Electronics Shadow Mask Co., Ltd. and IRICO Display Technology Co., Ltd. are Sino-foreign equity joint ventures engaging in the production business and are exempted from taxation for the first two profitable years and a 50% relief from the national PRC income tax rate (also exempted from paying the 3% local income tax) for the next three profitable years thereafter. As a result, Nanjing Reide Phosphor Co., Ltd., which was established in 2002, is entitled to pay EIT at 12% from 2006. Xianyang IRICO Electronics Shadow Mask Co., Ltd., which was established in 2003, has sufficient current year profit to set off against previous years' accumulated loss and thus has no assessable income. IRICO Display Technology Co., Ltd., which was established in 2004, is still in the exemption period.

28 Loss attributable to shareholders of the Company

The loss attributable to shareholders of the Company is dealt with in the financial statements of the Company to the extent of RMB9,956,000 (2005: RMB582,985,000).

29 Earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the Group's profit/(loss) attributable to shareholders of RMB129,512,000 (2005: loss of RMB754,547,000) and based on the weighted average of 1,941,174,000 (2005: 1,941,174,000) shares in issue.

There were no dilutive potential shares during the years ended 31st December 2006 and 2005 and accordingly no diluted earnings per share is presented.

30 Dividend

	2006	2005
Special dividend	—	58,261

At a meeting held on 15th April 2005, the directors announced that, after a review of the Company's operations since the listing of the Company's H shares and as a reward to the support of the Company's shareholders, the directors proposed a special dividend of RMB 0.03 per ordinary share which was approved at the shareholders' meeting held on 20th June 2005. The Company resolved to distribute a special dividend to shareholders before 30th June 2005.

(All amounts in thousands of RMB unless otherwise stated)

31 Notes to consolidated cash flow statement

(a) Cash generated from operations

	2006	2005
Profit/(loss) for the year	**167,715**	(960,333)
Adjustments for:		
— Income tax expense	**19,828**	48,377
— (Decrease)/increase in provision of doubtful debts	**(1,580)**	10,583
— Write down of inventories to net realisable value	**1,720**	1,596
— Depreciation *(note 5)*	**337,461**	346,989
— Amortisation	**7,907**	57,611
— Impairment loss on property, plant and equipment *(note 5)*	**67,205**	567,659
— Impairment loss on intangible assets *(note 7)*	**30,260**	—
— Net gains on disposal of property, plant and equipment	**(21,748)**	(4,687)
— Gains on disposal of intangible assets	**(113,573)**	—
— Profit on disposal of trading securities	**—**	(1,422)
— Interest income	**(6,521)**	(5,986)
— Finance costs	**61,849**	70,096
— Share of profit less losses of associates	**945**	2,479
— Amortisation of deferred income on grants received	**(3,475)**	(3,475)
Changes in working capital:		
— Decrease in inventories	**55,807**	257,177
— Increase in trade and other receivables	**(42,467)**	(65,214)
— Decrease in trade and other payables	**(111,251)**	(16,097)
Cash generated from operations	**450,082**	305,353

In the cash flow statement, proceeds from disposal of property, plant and equipment comprise:

	2006	2005
Net book amount *(note 5)*	**71,994**	12,897
Net gains on disposal of property, plant and equipment	**21,748**	4,687
Contribution as investment in an associate	**(92,253)**	—
Proceeds from disposal of property, plant and equipment	**1,489**	17,584

(All amounts in thousands of RMB unless otherwise stated)

31 Notes to consolidated cash flow statement *(continued)*

(b) Analysis of changes in financing during the year

	Share Capital and capital reserves	Other payables-non trade balance due to ultimate holding company	Minority interests	Short term bank borrowings	Other payables - dividend payable	Pledged bank balances
At 1st January 2005	2,862,046	349,178	1,128,866	1,420,000	—	(21,000)
Special dividend declared	—	43,676	—	—	14,585	—
Interest expense payable to ultimate holding company	—	1,048	—	—	—	—
Minority investors' share of loss	—	—	(205,786)	—	—	—
Dividend payable to minority investors	—	—	(7,689)	—	—	—
Cash (outflow)/inflow from financing	—	(54,311)	(84,407)	(159,823)	(14,585)	21,000
At 31st December 2005 and 1st January 2006	2,862,046	339,591	830,984	1,260,177	—	—
Negative reserve arising from share reform proposal	(176,083)	—	191,022	—	—	—
Minority investors' share of profit	—	—	38,203	—	—	—
Acquisition of additional interests of a subsidiary from a minority investor	(2,173)	—	(4,726)	—	—	—
Dividend payable to minority investors	—	—	3,323	—	—	—
Cash inflow/(outflow) from financing	—	504	(23,093)	(327,501)	—	(30,009)
At 31st December 2006	2,683,790	340,095	1,035,713	932,676	—	(30,009)

(c) Significant non-cash transaction

The principal non-cash transaction is the contribution of property, plant and equipments and intangible assets as investment in an associate as detailed in note 9.

32 Material litigations

a) The dispute between Xianyang Xingyun Mechanical Company Limited ("Xingyun") and the Company

On or about 19th June 2006, Xingyun brought an action against the Company in the People's High Court of Shaanxi. The Company received a notice ((2006) Shaan Min Chu Zi No. 16) from the court on 20th June 2006 requesting the Company to respond to the action and produce evidence in relation thereto.

On 28th July 2003, five Confirmation Agreements on Parts and Materials ("Confirmation Agreements") were entered into between Xingyun and the IRICO Colour Picture Tube Plant No. 1 CPT plant (彩虹彩色顯像管總廠彩管一廠) ("No. 1 CPT Plant"). According to the five Confirmation Agreements, Xingyun shall provide No. 1 CPT Plant with 5 types of parts samples including 37cm CPT model L shadow mask frame and anti-implosion band for mass pre-sale quality confirmation. In around February 2005, since the parties failed to agree on the price of bulk provision of goods upon the completion of the Confirmation Agreements, No. 1 CPT Plant notified Xingyun to suspend the provisions of parts as agreed in the Confirmation Agreements. Xingyun believes that this caused a total loss of RMB30,300,000 which was incurred from the investments in the construction of facilities and the purchase of materials.

The hearing of the case has ended. On 27th December 2006, the Company received a civil verdict ((2006) Shaan Min Er Chu Zi No. 16) from the People's High Court of Shaanxi. The court ruled that the claim by Xingyun against the Company to bear its investment loss of RMB26,340,000 and its claim against the Company to bear its production loss of RMB3,960,000 were not justified and were dismissed. The court also ruled that, according to the principle of fairness, the Company should acquire finished products, semi-finished products and raw materials held by Xingyun in the value of RMB3,880,000 according to the quantities, types and prices determined by both parties. Those finished products, semi- finished products and raw materials can still be utilized in the process of production by the Company, and therefore no loss would be incurred.

The period allowed for appeal stipulated in the civil verdict ((2006) Shaan Min Er Chu Zi No. 16) expired on 14th January 2007, and Xingyun has not filed an appeal to the People's Supreme Court of the PRC within such stipulated period.

32 Material litigations *(continued)*

a) The dispute between Xianyang Xingyun Mechanical Company Limited ("Xingyun") and the Company *(continued)*

On 11th April 2007, the Company received a writ of summons ((2007) Shaan Min Er Chu Zi No.10)) from the People's High Court of Shaanxi, and was informed that Xingyun brought an action for a second time against the Company in respect of the same matter.

In the opinion of the Directors of the Company, the outcome of the above litigation will not give rise to any significant impact on the Financial Report of the Group for the year ended 31st December 2006.

b) Baystar Capital II, LP et al. v. Core-Pacific Yamaichi International (HK) Ltd. et al., Case No 05 1091 ABC (CWx) (filed in the United States District Court for the Central District of California) (the "Baystar Litigation").

On or about 11 February 2005, BayStar Capital Management, LLC and BaystarCapital II, LP (hereinafter collectively referred to as "Baystar"), holders of the Company's H shares, commenced a litigation against Core-Pacific Yamaichi International (H.K.) Limited, et.al (hereinafter referred to as "CPYI"), one of the underwriters that offered the Company's H shares to investors in the United States pursuant to Rule 144A of the Securities Act of the USA. Baystar alleges that it entered into a strategic business development agreement with CPYI, pursuant to which CPYI acted as an investment consultant to Baystar in the greater China area. Baystar claims that CPYI breached the agreement and its fiduciary duties to Baystar. In addition, Baystar alleges that CPYI made material misrepresentations and omissions to Baystar, in violation of United States federal and state securities laws and the common law. Baystar has not commenced any action against the Company.

32 Material litigations *(continued)*

b) Baystar Capital II, LP et al. v. Core-Pacific Yamaichi International (HK) Ltd. et al., Case No 05 1091 ABC (CWx) (filed in the United States District Court for the Central District of California) (the "Baystar Litigation"). *(continued)*

On or about 20 May 2005, CPYI commenced a third-party action against the Company and the lead underwriter of the Company, as part of the Baystar Litigation. CPYI seeks contractual and common law indemnification and / or contribution from the Company in the event that CPYI is found liable to Baystar.

A copy of the third-party complaint was served by Law Debenture Society on the Company on or about 11 June 2005. The Company has retained a law firm to represent the Company in the litigation. On 18 August 2005, such law firm filed a motion to dismiss the third-party complaint in its entirety. On 13 October 2005, the Court granted in part and denied in part the motion to dismiss. Thereafter, on 7 November 2005, the Company filed an answer to CPYI's claims, denying all liability.

Because no party has identified a single material misrepresentation or omission made by the Company in the offering circular, the Company filed a motion for summary judgement on 15 May 2006. On 9 August 2006 the Court partly dismissed the motion, and the discovery procedure and the expected litigation procedure continued to proceed. Pursuant to the schedule approved by the Court, the closing date of the discovery procedure was postponed to 1 December 2006. The trial by jury will start on 1 May 2007. The discovery procedure has now ended.

As there is no significant facts or evidence unfavourable to the Company, according to legal advice, the Company will file a motion for summary judgment again in the near future, expecting the litigation to end as soon as possible.

In the opinion of the Directors of the Company, the outcome of the above litigation will not give rise to any significant impact on the consolidated financial statements of the Group for the year ended 31st December 2006.

(All amounts in thousands of RMB unless otherwise stated)

33 Commitments - Group

Capital expenditure at the balance sheet date but not yet incurred is as follows:

	2006	2005
Authorised but not contracted for		
— Construction and renovation of production lines for CPTs	**19,694**	49,711
— Construction and renovation of production lines for CPT components	**4,387**	165,064
	24,081	214,775
Contracted but not provided for		
— Investment in an associate	**110,000**	—
— Construction and renovation of production lines for CPTs	**18,797**	12,289
— Construction and renovation of production lines for CPT components	**932**	7,746
	129,729	20,035
	153,810	234,810

The future aggregate minimum lease payments under non-cancelable operating leases are as follows:

	Land use rights		**Property, plant and equipment**	
	2006	2005	**2006**	2005
Not later than 1 year	**4,603**	289	**32,668**	35,045
Later than 1 year and not later than 5 years	**9,205**	—	**65,337**	—
	13,808	289	**98,005**	35,045

(All amounts in thousands of RMB unless otherwise stated)

34 Related-party transactions

The Group is controlled by IRICO Group Corporation (incorporated in the PRC), which owns 75% of the Company's shares. The remaining 25% of the shares are widely held.

Related parties include IRICO Group Corporation and its subsidiaries (other than the Group), associates and jointly controlled entities (hereinafter collectively referred to the "IRICO Group"), corporations in which the Company is able to control, jointly control or exercise significant influence, key management personnel of the Company and IRICO Group Corporation and their close family members. IRICO Group Corporation does not produce financial statements available for public use.

IRICO Group Corporation is controlled by PRC government. In accordance with HKAS 24 "Related Party Disclosures", other state-owned enterprises and their subsidiaries, directly or indirectly controlled by the PRC government are also regarded as related parities of the Group and defined as "Other state controlled enterprise". For purpose of related transaction disclosure, the Group has in place procedures to assist the identification of the immediate ownership structure of its customers and suppliers as to whether they are state-owned companies. Many state-owned enterprises have multi-layered corporate structure and the ownership structures change over time as a result of transfers and privatisation programs. Nevertheless, in the opinions of Directors, the majority of the Group's activities have been conducted with other state controlled enterprises in the Group's ordinary course of business. In the meantime, the meaningful information relating to related party transactions has been adequately disclosed.

The following transactions were carried out with related parties:

(a) Sales of goods and provision of services

	2006	2005
Sales of goods (note (i)):		
The IRICO Group		
— Shenzhen Hongyang Industry & Trade Company	**9,612**	29,022
— Rui Bo Electronics (HK) Limited	**5,044**	9,050
— The utilities plant of the ultimate holding company	**4,810**	14,791
— Shaanxi IRICO General Service Corporation	**346**	429
— Caihong Labour Services Company	**340**	1,283
— Shaanxi IRICO Construction Engineering Co., Ltd.	**4**	11
— Xian IRICO Electric Co., Ltd.	**—**	3
	20,156	54,589
Other state controlled enterprises	**2,258,081**	1,882,563

(All amounts in thousands of RMB unless otherwise stated)

34 Related-party transactions *(continued)*

(a) Sales of goods and provision of services *(continued)*

Notes:

(i) Sales to related parties were conducted at prices not less than cost and with terms mutually agreed by both contracting parties.

(b) Purchases of goods and provision of services

	2006	2005
Purchases of goods *(note (i))*:		
The IRICO Group		
— Caihong Labour Services Company	**74,387**	81,862
— Shaanxi IRICO General Service Corporation	**49,866**	47,341
— Xianyang Cailian Packaging Materials Co., Ltd.	**32,613**	37,311
— Xian Caihong Plastic Co., Ltd.	**10,513**	12,159
— Xianyang Caihong Adhesive Belt Co., Ltd.	**5,539**	4,530
— Shenzhen Hongyang Industry & Trade Company	**1,086**	2,407
— Shenzhen IRICO Electronics Co., Ltd.	—	4,958
	174,004	190,568
Other state controlled enterprises	**609,045**	923,179
Purchases of property, plant and equipments:		
The IRICO Group		
— Xian Caihong Plastic Co., Ltd.	**3,408**	—
— Shenzhen Hongyang Industry & Trade Company	**1,059**	—
— Xian Guangxin Electronics Co., Ltd.	**—**	639
	4,467	639
Other state controlled enterprises	**12,765**	68,816

(All amounts in thousands of RMB unless otherwise stated)

34 Related-party transactions *(continued)*

(b) Purchases of goods and provision of services *(continued)*

	2006	2005
Provision of services:		
The IRICO Group		
— Utility charges to the utilities plant of the ultimate holding company *(note (ii))*	**454,899**	444,582
— Rental expense to the ultimate holding company *(note (iii))*	**39,883**	34,424
— School expense to IRICO School *(note (iv))*	**6,066**	9,278
— Trademark license fee to the ultimate holding company *(note (v))*	**3,828**	3,902
— Social and ancillary service charges from the ultimate holding company (note (vi))	**3,316**	3,986
— Shaanxi IRICO Engineering Audit Company	**260**	882
— Shaanxi IRICO Construction Engineering Co., Ltd.	**—**	1,216
— Accommodation fee to Shaanxi IRICO General Service Corporation	**—**	986
	508,252	499,256
Other state controlled enterprises	**—**	124

Notes:

(i) Purchases from related parties were conducted at prices not less than cost and with terms mutually agreed by both contract parties.

(ii) Various kinetic energy charges were paid/payable by the companies of the Group to the utilities plant of the ultimate holding company based on the agreed rates for the years ended 31st December 2006 and 2005 respectively.

(iii) From 1st January 2004, the Group is required to pay RMB11 per square metre per annum for the use of land use rights and RMB9 and RMB30 per square metre per month for the use of buildings in Xianyang and Beijing respectively, pursuant to the Premises Leasing Agreement. Accordingly, rental charges for the year ended 31st December 2006 amounted to RMB39,883,000 (2005: RMB34,424,000).

(All amounts in thousands of RMB unless otherwise stated)

34 Related-party transactions *(continued)*

(b) Purchases of goods and provision of services *(continued)*

Notes: (continued)

(iv) At 3rd November 2006, IRICO School has been transferred to the local government of Xianyang. Accordingly, the school expense to IRICO School is ceased from that date.

(v) License fee for using the trademark owned by the ultimate holding company was paid by the Group, at 0.1% of sales based on the terms stipulated in agreements. In accordance with the agreement signed by one of the subsidiaries, IRICO Display Devices Co. Ltd., the term is initially for five years from 1998 but renewable automatically unless terminated by either party with a three-month prior notice, and it was revised to end on 31st December 2006. In accordance with the agreement signed by the rest entities of the Group, the license fee is to be paid from 1st January 2004 and the agreement is for a term of 3 years up to 31st December 2006 unless terminated by either party with a three-month prior notice.

(vi) Social and ancillary service charges for the provision of staff welfare services are paid / payable to the ultimate holding company on a cost reimbursement basis.

(c) Compensation

In 2006, Caihong Labour Services Company provided certain materials to the Group for trial production on new products. Due to the quality issue of those materials, Caihong Labour Service Company paid compensation of RMB10,007,000 in accordance with related contracts.

(d) Loans from the ultimate holding company - Group

	2006	2005
Opening carrying amount	**30,048**	79,000
Loans borrowed	**29,000**	29,000
Repayment	**(31,696)**	(79,000)
Interest expense *(note 26)*	**1,648**	1,048
Closing carrying amount	**29,000**	30,048

Pursuant to an agreement entered into on 16th December 2004, the Company transferred its titles of certain loans to subsidiaries to the ultimate holding company on 19th December 2004 and offset its amount due to the ultimate holding company. This balance is recorded in the non-trade payables due to the ultimate holding company.

(All amounts in thousands of RMB unless otherwise stated)

34 Related-party transactions *(continued)*

(d) Loans from the ultimate holding company - Group *(continued)*

Loans from the ultimate holding company are unsecured, due within one year and with interest rate 6.12% (2005: 5.58%) per annum. The interest expense to the ultimate holding company is RMB1,648,000 (2005: RMB1,048,000).

(e) Amount due to the ultimate holding company

	Group		Company	
	2006	2005	**2006**	2005
Other payables and accruals				
The ultimate holding company	**340,095**	339,591	**310,659**	319,946

As at 31st December 2006, except for amount of RMB29,000,000 (2005: RMB29,000,000) of the Group due to the ultimate holding company which carries interest at 6.12% (2005: 5.58%) per annum and are repayable on 12th December 2007, the non-trade balances are unsecured, interest free and have no fixed repayment terms.

(f) Director's emolument affordeded by the ultimate holding company

An executive director of the Company, Mr Niu Xinan's emolument is afforded by the Group's ultimate holding company, IRICO Group Corporation (note 25).

(g) Key management compensation

	2006	2005
Salaries and other short-term employee benefits	**3,091**	3,666
fees	**500**	337
Retirement benefit contributions	**84**	75
	3,675	4,078

(All amounts in thousands of RMB unless otherwise stated)

34 Related-party transactions *(continued)*

(h) Year-end balances arising from sales/purchases of goods/ provision of services

	Group		Company	
	2006	2005	**2006**	2005
Trade receivables from related parties *(note)*:				
The IRICO Group				
— Caihong Labour Service Company	**5,332**	—	**—**	—
— Shenzhen Hongyang Industry & Trade Company	**2,984**	4,206	**—**	—
— Shenzhen IRICO-ROYAL Info-Electronics Ltd.	**—**	3,421	**—**	3,421
— The Utilities Plant of the ultimate holding Company	**—**	49	**—**	49
	8,316	7,676	**—**	3,470
Other state controlled enterprises	**950,397**	872,282	**224,607**	226,234
	958,713	879,958	**224,607**	229,704
Representing:				
Trade receivables *(note 12)*	**335,923**	243,694	**88,470**	48,798
Trade bills receivables *(note 12)*	**622,790**	636,264	**136,137**	180,906
	958,713	879,958	**224,607**	229,704

(All amounts in thousands of RMB unless otherwise stated)

34 Related-party transactions *(continued)*

(h) Year-end balances arising from sales/purchases of goods/ provision of services *(continued)*

	Group		Company	
	2006	2005	**2006**	2005
Trade payables to related parties *(note)*:				
The IRICO Group				
— The utilities plant of the ultimate holding company	**104,965**	103,992	**75,864**	76,994
— The ultimate holding company	**8,387**	29,981	**8,215**	28,954
— Shaanxi IRICO General Service Corporation Co., Ltd.	**5,079**	6,048	**820**	2,930
— Caihong Labour Service Company	**3,702**	10,108	**2,574**	1,321
— Xianyang Cailian Package Material Company	**3,581**	5,141	**1,654**	3,231
— Xianyang Caihong Plastic Co., Ltd.	**2,100**	—	**—**	—
— Shenzhen Hongyang Industry & Trade Co., Ltd.	**744**	640	**291**	640
— Xianyang Caihong Adehesive Belt Co., Ltd.	**724**	—	**392**	—
— Xianyang Caihong Electronic Materials Co.	**147**	98	**—**	—
— Sakuria Denshikogyo Co., Ltd.	**—**	336	**—**	—
	129,429	156,344	**89,810**	114,070
Other state controlled enterprises	**108,449**	250,709	**74,512**	224,243
	237,878	407,053	**164,322**	338,313
Representing:				
Trade payables *(note 19)*	**212,241**	397,053	**138,685**	328,313
Trade bills payables *(note 19)*	**25,637**	10,000	**25,637**	10,000
	237,878	407,053	**164,322**	338,313

(All amounts in thousands of RMB unless otherwise stated)

34 Related-party transactions *(continued)*

(h) Year-end balances arising from sales/purchases of goods/ provision of services *(continued)*

Note:

The trade balances in respect of sales and purchases are under the Group's normal trading terms.

(i) Bank balances in and loans from state controlled banks

	Group		Company	
	2006	2005	**2006**	2005
Bank balances in state controlled banks	**479,400**	534,177	**221,670**	186,399
Short term borrowings from state controlled banks	**932,676**	1,260,177	**563,704**	735,605

	2006	2005
Interest income from state controlled banks	**6,521**	5,986
Interest and finance costs to state controlled banks	**56,512**	65,997

35 Events after the balance sheet date

On 16th March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the new "CIT Law"). The new CIT Law reduces (increases) the corporate income tax rate for domestic enterprises (foreign invested enterprises) from 33% (15% or 24%) to 25% with effect from 1st January 2008. The new CIT Law also provides for preferential tax rates, tax incentives for prescribed industries and activities, grandfathering provisions as well as determination of taxable profit. As at the date that these financial statements are approved for issue, detailed measures concerning these items has yet to be issued by the State Council. Consequently, the Company is not in a position to assess the impact, if any, to the carrying value of deferred tax assets and liabilities as at 31st December 2006. The Company will continue to evaluate the impact as more detailed regulations are announced.

36 Ultimate holding company

The Directors regard IRICO Group Corporation, a company established in the PRC, as being the ultimate holding company.

Five Year Financial Summary

	For the year ended 31st December				
	2006	2005	2004	2003	2002
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Results					
Turnover	**3,861,710**	3,927,500	4,949,683	4,269,781	3,999,378
Profit / (loss) before taxation	**187,543**	(911,956)	650,250	623,116	510,923
Taxation	**(19,828)**	(48,377)	(134,468)	(173,936)	(129,891)
Profit before minority interests	**167,715**	(960,333)	515,782	449,180	381,032
Minority interests	**38,203**	(205,786)	130,455	(133,355)	(103,929)
Net profit / (loss) attributable to equity holders of the year	**129,512**	(754,547)	385,327	315,825	277,103
Assets, liabilities and minority interests	**8,801,216**	9,361,210	11,200,106	8,771,594	10,035,480
Total assets	**5,491,057**	5,795,426	7,121,278	5,475,676	6,425,806
Total liabilities	**2,274,446**	2,734,800	2,949,962	2,288,758	2,696,838
Minority interests	**1,035,713**	830,984	1,128,866	1,007,160	912,836

Corporate Information

Introduction

The Company was incorporated in Xianyang, Shaanxi Province, the PRC on 10 September 2004. It was established with the contribution made by IRICO Group Corporation, the controlling shareholder and sole promoter of the Company, in respect of its assets of production and sales of CPTs in its related core businesses and, the equity interests in its eight subsidiaries engaged in related operations. The Company's H Shares were successfully listed on the main board of the Stock Exchange on 20 December 2004.

The Group are the largest CPTs manufacturer in China and one of the world's major CPTs and CPT components manufacturers. The group have the longest operating history amongst all CPTs manufacturers in China, with over 20 years of experience in CPTs production.

Major customers of the Group include TCL, Changhong, Hisense, Konka and Skyworth, which are major television producers in China.

Executive Directors

Xing Daoqin	Chairman
Tao Kui	Vice Chairman
Guo Mengquan	President
Zhang Shaowen	
Niu Xinan	

Non-executive Director

Zhang Xingxi
Yun Dah Jiunn

(Note 1: Mr. Yun Dah Jiunn was re-designated from an Executive Director to a Non-executive Director on 27 December 2006, the details of which were set out on the announcement of the Company dated 27 December 2006.)

Independent Non-executive Directors

Feng Fei
Xu Xinzhong
Feng Bing
Wang Jialu
Zha Jianqiu

Audit Committee

Zha Jianqiu
Feng Bing
Feng Fei
Xu Xinzhong
Zhang Xingxi

Joint Company Secretaries

Zhang Chunning
Lam Chun Lung

Qualified accountant

Lam Chun Lung

Authorised representative

Yun Dah Jiunn
Zhang Chunning

Legal address in the PRC

No. 1 Caihong Road
Xianyang, Shaanxi Province
The People's Republic of China
Postal code: 712021

Place of business in Hong Kong

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Hong Kong

Company website

www.irico.com.cn

Corporate Information (Continued)

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Baker & McKenzie
14th Floor, Hutchison House
10 Harcourt Road
Hong Kong

Auditors
PricewaterhouseCoopers
22nd Floor
Prince's Building
Central
Hong Kong

Principal bankers
Industrial and Commercial Bank of China (Xianyang Branch)
Construction Bank of China (Xianyang Branch)
Industrial and Commercial Bank of China (Xian Advanced Technology Development Zone Branch)
Industrial and Commercial Bank of China (Xian Branch)

Registrar of H Shares
Computershare Hong Kong Investor Services Limited
Room 1712 - 1716, 17th Floor, Hopewell Center
183 Queen's Road East
Hong Kong

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Convention Plaza,1 Harbour Road
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